

Are You Planning to Sell Your Home?

Know the tax consequences

If you are planning to sell your home, there are a couple of things you need to do in addition to packing and cleaning. For tax purposes you'll need to determine whether or not the home you are selling is your main residence. Your main home is usually the one that you live in most of the time.

You should determine whether or not you have a gain on the sale of your home. To determine this, you will need to figure out your adjusted basis. Your adjusted basis is the original purchase price of the residence, purchase expenses, improvements, additions, assessments and more. Consult with your tax professional for help in determining the items that may affect your home's adjusted basis. Take the final selling price and

reduce it by your adjusted basis to calculate your gain or loss from the sale.

If you have a gain from the sale of your main home, you may qualify for an exclusion of income for all or part of the gain. In general, if you have owned and used your home as your main residence for two out of the last five years, you are eligible to exclude \$250,000 of gain from income (\$500,000 for married taxpayers filing jointly). You are not eligible for the exclusion if you excluded the gain from the sale of another home during the two-year period prior to the sale of your home.

Example for married taxpayers filing jointly selling home:

<i>Sales Price</i>	\$2,000,000
<i>Adjusted Basis*</i>	(\$1,000,000)
<i>Exclusion</i>	(\$500,000)
<i>Taxable Gain</i>	\$500,000

**(Original cost \$750,000 plus \$250,000 of improvements)*

If you received the first-time homebuyer credit and within 36 months of the date of purchase you no longer use the property as your principal residence, you may be required to repay the credit. Repayment of the credit is due with the income tax return for the year the home ceased to be your principal residence. The repayment amount is determined by the gain associated with the sale; if there is a loss the credit may not be required. Consult with your tax professional to determine if a repayment is required.

Tax Tips

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Reporting Casualty Losses *Were you hit by bad weather?*

From tornados to earthquakes to hurricanes, it was one busy summer for Mother Nature. Unfortunately, this means that a lot of taxpayers experienced destruction. If you're one of them, the loss of business or personal property may provide a deduction on your individual income tax return, but first you need to determine if the loss qualifies for a deduction.

A casualty is defined as the damage, destruction or loss of property resulting from an identifiable event that is sudden, unexpected or unusual. Events that could produce a casualty loss include floods, fires, earthquakes, tornados or terrorist attacks. Events that aren't unusual, such as a pet knocking over an antique vase, would not qualify as a casualty loss.

If you have experienced a casualty loss, you'll need to figure out what the lost property was worth; this is the fair market value. You also need to know the change in value of the property before the event compared to after the event. If the decline in value is less than your cost, then the smaller amount is used to determine the loss.

This amount is decreased by any insurance or other reimbursement you receive on the property. Sometimes reimbursements can actually lead to income from the casualty instead of a loss, in which case different rules may apply limiting the reporting of that income to the IRS.

The loss after insurance reimbursement is reduced by \$100 and reported on Schedule A, *Itemized Deductions*. The aggregate total of all casualty losses will be reduced by 10 percent of your adjusted gross income.



Tax Deductions for Teachers

Did you buy supplies for your classroom?

As a small token of appreciation, teachers are allowed to deduct up to \$250 on their tax return for money they spent on classroom supplies. The deduction is an "above-the-line" deduction, which means that it's an adjustment to income; filing a Schedule A, *Itemized Deductions*, isn't necessary to receive the benefit.

Instructors, counselors, principals and aides employed by state-approved K-12 public and private school systems are also eligible to claim this deduction. Deductible items include unreimbursed books, supplies, computer equipment and other materials used in the classroom. The items you purchase for your classroom must be considered ordinary and necessary in order to deduct the costs. But if you receive a reimbursement for the items you purchase, you may not deduct the cost on your tax return.

Child Tax Credit

Your tax preparer can determine if you qualify

The Child Tax Credit has been extended through 2012. The maximum credit is \$1,000 for each qualifying child. All or a portion of this credit may be refundable. A qualifying child must satisfy six tests:

Relationship. This is your child or step-child (whether by blood or adoption), foster child, sibling or step-sibling, or a descendant of one of these (for example: grandchild, niece or nephew).

Residence. The child must have the same principal residence as you for more than half

the tax year. In certain cases, exceptions apply for children of divorced or separated parents, kidnapped children, temporary absences and for children who were born or died during the year.

Age. The child is under the age of 17 at the end of 2011.

Support. The child must not have provided more than one-half of his/her own support for the year.

Dependent. The child must be claimed as a dependent on your tax return.

Citizen. The child is a U.S. citizen, resident or U.S. national.

For further information on determining whether or not you can claim the Child Tax Credit, speak with your tax professional.

Have You Adopted a Child?

You may qualify for a special tax credit

If you adopted or attempted to adopt a child in 2010 or 2011, you may qualify for the adoption tax credit. The credit was created to help those who may not have been able to complete the adoption due to the expense associated with the process. For 2010, the credit offsets the qualified adoption expenses, up to \$13,170.

You may be able to claim the credit even if the adoption does not become final. Also, if you adopt a special needs child and the adoption becomes final, you may qualify for the full amount of the adoption credit even if you paid few or no adoption-related expenses.

Qualified adoption expenses are reasonable and necessary expenses directly related to the legal adoption of a child who is under 18 years old, or physically or mentally incapable of caring for him- or herself. These expenses may include adoption

fees, court costs, attorney fees and travel expenses.

To claim the credit, set up an appointment with your tax professional and bring any necessary documents, which may include a final adoption decree, placement agreement from an authorized agency, court documents and the state's determination for special needs children.



Education Expenses

Do you qualify for a tax credit?

Education credits are available for qualifying education expenses beyond high school for taxpayers, their spouses and their dependents. The American Opportunity Tax Credit is available to those who have not completed the first four years of education beyond high school as of the start of the tax year. For 2011, the maximum American Opportunity Credit is 100 percent of the first \$2,000 of qualified higher-education tuition and related expenses, plus 25 percent of the next \$2,000 of such expenses paid during the tax year. The maximum credit allowed is \$2,500. Up to 40 percent of this credit may be refundable, computed after AGI phase-out limitation and subject to the Kiddie Tax provisions.

The Lifetime Learning Credit is available for one or more post high-school courses taken by the student during the year, including graduate courses and courses taken to improve or acquire job skills. For 2011, the maximum Lifetime Learning Credit available is \$2,000.

2011 AGI Phase-Out	American Opportunity Tax Credit	Lifetime Learning Credit
MFJ, QW	\$160,000 – \$180,000	\$102,000 – \$120,000
S, HH	\$80,000 – \$90,000	\$51,000 – \$60,000
MFS	Not Available	Not Available

2011 Standard Mileage Rate

Higher gas prices lead to adjustments

Beginning each calendar year the IRS releases an optional standard mileage rate that taxpayers can use when calculating the deductible costs of operating an automobile for business-use and medical, moving and charitable purposes. 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.

Due to the significant increase of gasoline prices from the beginning to the middle of the year, the IRS adjusted the mileage rate in June.

Mileage Rate	January 1 – June 30, 2011	July 1 – December 31, 2011
Business	51 ¢	55.5 ¢
Medical/Moving	19 ¢	23.5 ¢
Charitable	14 ¢	14 ¢

Quik Tips

1 Capital gains rates are taxed at 0 percent and 15 percent for 2008 through 2012.

2 Qualified dividends are taxed at 0 percent and 15 percent for 2008 through 2012.

3 Beginning after 2010, the Advanced Earned Income Credit is no longer available.

4 The 2011 annual deductible health savings account (HSA) contribution is \$3,050 for individuals and \$6,150 for families. For a high-deductible health plan (HDHP), the minimum deductible is \$1,200 for individuals and \$2,400 for families. The HDHP maximum out-of-pocket expense is \$5,900 for individuals and \$11,900 for families.

5 The 2012 annual deductible HSA contribution is \$3,100 for individuals and \$6,250 for families. For an HDHP the minimum deductible is \$1,200 for individuals and \$2,400 for families. The HDHP maximum out-of-pocket expense is \$6,050 for individuals and \$12,100 for families.

6 For 2011, the contribution limit to a traditional or Roth IRA is \$5,000 (\$6,000 for taxpayers age 50 and over).