RECENT DEVELOPMENTS AND CORRECTIONS TO 2011 FEDERAL TAX WORKBOOK

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RECENT DEVELOPMENTS

Date Posted	Page	Additional information
10/4/11	396	Strike the last sentence in the second note box and replace with the following: "On October 18, 2011, the IRS announced that the election is made by submitting a timely filed and properly prepared Form 706, regardless of whether the form would otherwise be required. Not filing a timely Form 706 will prevent the making of the election. However, if an estate is obligated to file Form 706 but the portability election is not desired, a statement to that effect can be attached to the form, or 'No Election Under Section 2010(c)(5)' can be written across the top of the first page of Form 706."
10/4/11	616	Add the following **Note** at the bottom of the page: "On September 30, 2011, the IRS issued Rev. Proc. 2011-47, which stated that, in response to a large number of comments, the IRS will continue to authorize the high-low substantiation method."
10/4/11	236	Add the following to the end of the last note box: "The IRS released draft instructions for Form 8938 on September 28, 2011. This has provided further clarification on the filing requirements for Form 8938 for tax years beginning after March 18, 2010. Generally, if specified financial assets are more than $50,000 on the last day of the tax year or more than $100,000 at any time during the year, Form 8938 must be filed. However, the filing requirement also depends upon the taxpayer's residency and filing status. See the new instructions for Form 8938 for further guidance."
10/13/11	385	The final version of Form 8939 has been released and is available on the IRS website.
10/17/11	59	The Obama administration announced on October 14 that they are abandoning efforts to implement the CLASS program.
10/21/11	1 & 443	On October 21, the IRS released the inflation-adjusted amounts for IRC §179 expensing in Rev. Proc. 2011-52. For 2012, the maximum §179 deduction is $139,000. This amount is phased out on a dollar-for-dollar basis when the cost of §179 property placed in service in 2012 exceeds $560,000.
10/31/11	276	The IRS announced that it is providing transitional relief to banks and other payment settlement entities required to file information returns and payee statements on Form 1099-K. The relief is available for Forms 1099-K to be filed in 2012, based on payments made in calendar year 2011, provided that the filer makes a good faith effort to accurately file the appropriate information returns. Additionally, the IRS is delaying for one year the effective date of the backup withholding requirements for transactions subject to reporting under IRC §6050W. See IRS Notices 2011-89 and 2011-88 for more information.
11/7/11	373	The IRS recently announced that the estate tax exclusion will increase to $5.12 million for decedents dying in calendar year 2012.

11/10/11	524	A bill signed into law on Oct. 21 increased the penalty for paid preparers that fail to meet their due diligence requirements on EIC claims from $100 to $500. The increased penalties apply to returns required to be filed after December 31, 2011. In addition, preparers will be required to complete and **submit** Form 8867, *Paid Preparer's Earned Income Credit Checklist,* with all returns and refund claims for EIC.
11/28/11	241	As a result of the details released in *Instructions for Form 8938*, the explanation for Example 8 should be deleted. DyAnne's specified foreign financial assets never reach a value of more than $100,000 at any point in the year and do not have a value of more than $50,000 at the end of the tax year. The filing of Form 8938 is therefore not required. However, the IRS will still have until April 15, 2018 to assess the tax on the unreported income. If Form 8938 was required, the *Instructions for Form 8938* indicate that an additional limitations extension of 3 years commencing from the date the form is filed would also be implicated.
12/15/11	542	**New Mandatory Basis Reporting**

New basis rules apply to tax years beginning after October 18, 2010. There are new rules for **stocks** and for **mutual fund shares**. These new rules are being phased in over 2011 through 2013. These rules can be summarized as follows.

- **Stocks** purchased on or after **January 1, 2011** are "covered" under the new rules and brokers must prepare an information return (typically a Form 1099-B) that reports gross sale proceeds, the customer's cost basis. The information return must indicate whether the gain was long term or short term,

- **Mutual fund shares** purchased on or after **January 1, 2012** are "covered" and, broker and mutual fund companies must prepare similar detailed information returns showing gross proceeds, cost basis and whether any gain is long or short term,

- **Other securities**, such as options and bonds, become covered on **January 1, 2013.**

The broker or mutual fund company will select a default method for basis determination. The taxpayer can elect to use one of several other methods to determine basis instead of the default method by notifying the agent or custodian holding the shares.

In order to facilitate broker and mutual fund company reporting of taxpayer basis for covered securities, the IRS has substantially revised Form 1099 B.

The IRS created new **Form 8949, *Sales and Other Dispositions of Capital Assets*** to report the details of each transaction. In addition, Schedule D, *Capital Gains and Losses* was substantially revised. Detailed information on investment sales is no longer provided on Schedule D. Details are instead shown on the new Form 8949.

CORRECTIONS

Date Posted	Page	Correction
10/4/11	135	In the footnote for the table under Step 2, change "Column 3" to "Column 2."
10/4/11	420	In **Example 13,** change the amount in the second sentence from "$6,6667" to "$6,667."
10/5/11	235	Change the last sentence in **Observation 3** to "Their investment income without the gain would have been $70,000."
10/20/11	320	In the first table, change the number in the "Wages" column for Employee 2 from "$26,628" to "$23,628."
		In the second table, change all amounts for Employee 5 to "N/A."
		Add the following **Note** to the page: "The IRS has a web page dated Oct. 14, 2011, with FAQs about this credit. The answer to question 16 says that employers do not have to use the same method of computing hours of service for all employees but may apply different methods for different classifications of employees, if the classifications are reasonable and consistently applied. For example, an employer may use Method 1 for all hourly employees and Method 3 for all salaried employees."
11/3/11	319	In the last sentence of the second paragraph under the "Small Business Health Care Tax Credit" heading, change the "50" to "25."
11/9/11	IL-2	In the "Illinois Tax Rates" table, the words "1.5% replacement" should be moved from the line labeled "Estate" to the line labeled "Trust."