

December 1, 2010

RE: IRS Rule Changes for 2011

This has been an interesting year and as we start to prepare for tax season we want to update you with new IRS rules that will take effect in January 2011. Hopefully our advance notice will avoid surprises and also make it easier for you to gather the information we need to help you.

**E-filing.** Beginning for returns filed after December 31, 2010, all returns filed by a preparer must be e-filed. There are some limited exceptions, but in almost all cases, if we prepare and file your tax return, the return must be e-filed. If you have not e-filed in the past, the process includes taxpayer review of the return before filing and signature approval to us before we can e-file the return. In the case of a joint return, both taxpayers must sign the e-file authorization. We are cognizant of the security issues and will always communicate with you before sending any of your information via internet.

**1099 Reporting.** For all payments over \$600 made after December 31, 2011, for goods or services in a trade or business, a 1099 must be sent to the vendor. There has always been a requirement to provide 1099s for payments for services to non-incorporated vendors. The rule has been expanded to include 1099s for all payments for both goods **and services** in excess of \$600 to **all** vendors. The only exception appears to be for payments made with a charge card. The IRS has been encouraged to exclude businesses with fewer than 50 employees from the requirement but as yet there has been no change to the rule. We are encouraging early adoption. To prepare for this requirement, you should be sure to request Taxpayer Identification Numbers for all vendors beginning in January 2011 and to make sure your accounting software is set to support 1099 reporting. If you need the IRS form to request the TINs (Form w-9) or would like us to verify that your software will support the reporting, please let us know. We plan to include a copy of a w-9 with Lux & Associates, PS information with your 2011 billing if we believe you will be required to provide 1099s in 2012. If you do not receive a w-9 from us and would like one, please let us know.

**Preparer registration.** Beginning in January 2011, anyone who prepares tax information for return preparation must be registered with the IRS. Unless the preparer is a certified public accountant, a lawyer or an enrolled agent, the registry will also require competency testing and annual education requirements. All of the tax preparers at Lux & Associates, PS are CPAs. By passing the CPA exam, we have already demonstrated our competency and we annually attend continuing education as required by our professional licensing.

**Tax release.** Clients often ask us to provide a copy of their tax return to someone other than themselves. The IRS has provided required language for taxpayers to sign if returns are to be given by a preparer to someone other than the taxpayer. If you have previously asked us to provide your return directly to someone other than yourself, we will try to include the release with your organizer. Please return the completed release and/or let us know if there is someone else who will need a copy of your return with your organizer information

This list includes only the items that we think will impact the most people. If there is some particular provision or question you have, please be sure to call us.