

PRESIDENT'S MESSAGE



I READ AN INTERESTING ARTICLE about our profession and wanted to share a statistic with you: According to the New Jersey Department of Labor and Workforce Development, in September

2009 (the latest month figures that are available) employment in seven of the ten private industry sectors declined, two sectors recorded gains and one sector was unchanged. Financial activities is one of the sectors to record gains. *How lucky for us!*

During these trying economic times, our clients look to us for guidance and assistance. It is critical that we stay the course – so to speak. We need to stay in touch with our clients, offer the usual great service they have come to expect and, most importantly, keep our exposure and risk at a minimum. *What changes have you implemented in your office to be sure the recession doesn't overly affect your business? How much of an increase in fees is reasonable? What changes will you make in your billing practices to be sure you get paid? Do you accept credit cards? What changes have you implemented to reduce your exposure during an audit of your client's returns? Now is the time to set some policies for your office this tax season.*

NATP is there to help. As a member, you have access to a wealth of information. On the NATP website (natptax.com) you have downloadable worksheets and charts, a Section 7216 toolkit, and some important practice management tools including an interview checklist and a chart to help you set your fees. NATP keeps us up to date with federal tax changes with the weekly TAXPRO emailed each Thursday, the monthly TAXPRO and the TAXPRO Journal quarterly. Don't forget the great research services available for federal issues and the list of State Assistance Volunteers found on the website.

2010 promises to be a very busy year. During this year, the IRS will most likely institute the registration [redacted] of tax preparers and NJ has recently introduced a bill to register all tax preparers. New York already has a registration requirement. Please check the New York Chapter website for additional information on how to complete the registration process for New York if you haven't already done so. NATP will help us every step of the way when the registration process and testing process begins for IRS. And of course your state chapter directors are there for you if you need us during the tax season or the rest of the year – just visit our website for a list - njnatp.com.

Have a great tax season. See you at our next educational event on May 20, 2010. *Mark your calendars!*

Marilyn H. Ayers, CPA
President, NJNATP



The NATP Scholarship was presented to Mayra Londono (center) at the NJNATP State Tax Seminar on January 9, 2010. Mayra graduated from Hudson County College and is currently a junior at Rutgers University, majoring in Accounting. Pictured with Mayra are Gwen Radloff and Mario Tripaldi, co-chairs of the Scholarship Committee.

MARK YOUR CALENDAR



Upcoming Events in New Jersey...

BREAKFAST SEMINAR

Thursday, May 20, 2010
Mount Laurel Marriott 9:00-11:00 AM

POSSIBLE TOPICS:
PA or DELAWARE Taxes!

ANNUAL CONFERENCE

Thursday, September 30, 2010
Woodbridge Hilton

NATIONAL EVENTS

National Conference in Austin Texas 7/19-7/22

Technology (TOP) Conference in Atlantic City
September 20/21 at the Sheraton

Essential 1040 and Beyond the 1040
Check NATP website

From the Editor...

ANOTHER TAX SEASON IS STARTING- do we think it will be any different?? Do you really believe the client when he/she says; "I have a very simple return"; or, " I KNOW I have all my tax information and I need to have it done right away for the financial aid forms for college"!! And isn't it fun when they insist that they no longer have interest in a particular bank, the return is electronically filed, and next month, they appear, sheepishly, with two 1099's from the aforementioned bank! And, then, why on earth should you charge them for an amended return????

When things get too crazed, don't forget the NATP Research Department- *remember to use your free research question*, and as many additional questions as necessary. It is truly money well spent!

Have you ordered all your supplies? Enough to get you through the tax season? How annoying it is to run short of tax return folders in early April! The NATP Tax Store is ready with whatever is needed.

This summer, there will be special summer sessions in Atlantic City: August 16th-18th. Topics will include Business, Individual and Estates and Trusts. The Tax Pro Symposium is earlier this year - November 1st-4th in Atlantic City. Watch the NATP website for locations.

After 18 years of serving on the NJ Board of Directors, I stepped down from the Board as of December 31, 2009. I certainly expect to be present at future seminars and events, and have the opportunity to speak to all of you. Hopefully, I will be continuing as the editor of this newsletter, also. As a member of the National Board of Directors, I have recently had the honor of being elected as the National Vice President. I feel very excited and privileged to serve NATP in this way.

Hope to see you at the National Conference in Austin, and at the NJNATP Annual Conference on 9/30/10.

Jean Millerchip
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DEDUCTION ALLOWED FOR 2009

A BILL was just passed in the House, allowing taxpayers who make donations for Haiti earthquake victims to write off this charitable deduction when they file their 2009 tax returns, rather than wait for another year.

The bill passed with no opposition, with quick action from the Senate expected.

Excess FLI Contributions in NJ!!

ON JANUARY 11, 2010, Senate bill# 3065 passed both houses of the legislature and was signed into law on January 14, 2010. The bill provides for annual adjustments in family temporary disability contribution rates commencing in calendar year 2011 and provides the worker, who was employed by 2 or more employers subject to the NJ Unemployment Compensation and Temporary Disability laws, the right to claim a credit for excess Family Leave Insurance (FLI) worker contributions.

The passage of the bill was beyond the deadline to include worker contributions for FLI on form NJ-2450 for 2009. While a worker, who is employed by 2 or more employers during calendar year 2009, may file a NJ_2450 for excess worker contributions for unemployment (UI), disability (DI) and workforce (WF), the worker will not be able to include excess worker contributions for FLI. To claim a credit for excess worker contributions for FLI, the worker must file a UC-9A with the NJ Department of Labor.

A worker who received wages from 2 or more employers subject to the NJ Unemployment

Compensation and Temporary Disability laws, and contributed more than the maximum of \$26.01 for FLI during the calendar year 2009, must file a UC-9A to receive a refund of the excess FLI contributions. If form 2450 has been filed for excess UIK,DI and WF contributions for 2009, then do not include the contributions for UI, DI, and WF on form UC-9A.

- Download and complete for UC-9A (2009)
- Make copies of W-2s.
- Mail completed UC-9A and supporting documentation to:

DIVISION OF EMPLOYER ACCOUNTS
Worker Refund Unit 2009
PO Box 910
Trenton, NJ 08625-0910

These contributions should be listed as a separate item in Box 14 of the W-2, and not included with the UI/DI when inputting into tax software. For more information on the payments, call 609-984-3147.

No refund will be issued prior to August 30, 2010.

INHERITANCE/NJ ESTATE: *Which Forms Do You File??*

IT DEPENDS!!! It may be necessary to file the NJ Inheritance Tax return, the NJ Estate Tax return, the decedent's final state and federal tax returns and the estate's state and fiduciary income tax returns for each year of the estate.

The NJ Inheritance Tax Resident Return (Form IT-R) reports transfers of assets occurring at death. The NJ inheritance tax is imposed on transfers of property of \$500 or more to beneficiaries, except for transfers to Class A beneficiaries: spouse, civil union partner for death after 2/19/07, domestic partner for death after 7/10/04, children, stepchildren (but not descendants of stepchildren), parents and grandparents. The above are exempt. Inheritance tax is due 8 months after death.

If all assets pass outright to Class A beneficiaries, and if the total estate is less than \$675,000, it may not be necessary to file the IT-R, but instead you may use a Form L-8 and/or an L-9. Form L-8 may be used to obtain the release of bank accounts, brokerage accounts, stock in a NJ Corporation and NJ Bonds. A Form L-9

may be used to obtain a tax waiver to transfer real estate, in the decedent's name.

If the gross estate exceeds \$675,000, a NJ Estate Tax Return (Form IT-Estate) must be filed 9 months after death.

You will also have to file the decedent's final state and federal individual income tax returns from January until the date of death.

The estate itself is a separate taxpayer and must file a fiduciary income tax return (Form 1041) if the estate has gross income of \$600 or more during the year. A NJ fiduciary income tax return (Form NJ-1041) must be filed if the estate has gross income of \$10,000 or more during the reporting year.

If the estate owns real property in another state, you will need to evaluate what additional returns may be required in that state.

For more information, check the NJ Division of Taxation website: state.nj.us/treasury/taxation. Federal information is available at: irs.gov.

BY MARILYN H. AYERS

AT OUR RECENT NJ NATP NEW JERSEY SEMINAR, John Kelly, our NJ Legislative Analysis Chief, shared a list of tips in preparing New Jersey Inheritance Tax Returns with us. For those of you who missed this great seminar here is a list of common errors the department has reported:

- First, all NJ Inheritance Returns and Estate Tax Returns are manually processed. A person reviews every return.
- Jointly held assets must be reported at full value unless the co-owner has documentation to support how much of the money is from assets outside the estate.
- Deductions must be supported by proper documentation.

- The calculation of commissions is governed by law, NJAC 18:26:7.10. Executor commissions are calculated at 5% of the first \$200,000 of corpus, 3.5% of the next \$800,000 of corpus and 2% of the excess over \$1 million.
- Taxable assets for the Inheritance Return and the Estate Return are calculated differently. Life insurance, for example, is not taxed on the Inheritance Return but is included on an Estate Return.
- Although not required, John recommended that statements from financial institutions and other outside sources be included to support the value of all assets reported on an Inheritance Return.

The Federal Schedule C and the NJ-1040

BY ROBERT D. FLACH — THE INTERNET'S WANDERING TAX PRO

THE NEW JERSEY GROSS INCOME TAX is different from the average state income tax system. Most state income tax returns begin with the Adjusted Gross Income or Taxable Income from the federal Form 1040 (or 1040A) and go on from there by adding or subtracting various state adjustments to determine the state taxable income.

The NJ-1040 is similar to the Pennsylvania PA-40 in that it reports income by specific, stand-alone categories, and does not allow losses in one category to reduce income in another. Capital losses cannot reduce interest or dividend income. A loss in any of the categories is recorded as "0" on the NJ-1040.

And while the federal return provides for income and losses from one source to be reported on different schedules (i.e. interest income generated from a partnership, sub-S corporation or sole proprietorship is reported with other interest income on Schedule B instead of on Schedule C or E), the NJ-1040 lumps together all the various income, deductions and losses from one particular activity together.

Interest, dividends, capital gains and losses, and business income generated by a partnership are combined and reported as a net amount on the line for Distributive Share of Partnership Income on the NJ-1040. The same applies to a Sub-S Corporation. And it is also true for the "net profits from business".

So it is that when reporting income from a sole proprietorship or one-person LLC on the NJ-1040 you do not simply take the bottom line of the federal Schedule C (or C-EZ) and enter it on Line 17 of the NJ return. There are several adjustments, both plus and minus, that can be made in determining what to enter on Line 17.

We begin with the net gain or loss reported on the federal Schedule C. From this number we subtract the 50% of meal and entertainment expenses that were not allowed as a deduction on the federal Schedule C. The State of New Jersey allows you to deduct 100% of business meal and entertainment expenses on the NJ-1040!

Next we add or subtract any gains or losses from the sale, exchange or other disposition of any property that was held and used by the business. This is gain or loss that would have been reported on federal Form 4797. Such gains or losses are applied directly to the Schedule C business activity and are not included in the calculation of Net Gains or Income from Disposition of Property on NJ-1040 Line 18.

This is a great help when there is a net Schedule C loss and a Form 4797 gain. The gain from the sale of the business asset is reduced by an otherwise nondeductible Schedule C loss to reduce net NJ taxable income. The same result will occur when

there is a Schedule C gain and a Form 4797 loss.

Interest and dividends earned on the business accounts of Schedule C filers are reported on Schedule B of the federal 1040 (as mentioned above), because this type of income is not subject to self-employment tax. But "interest and dividends derived in the conduct of a trade or business" is added to the amount reported on Line 17 of the NJ-1040. Again, this is a help if there is a net Schedule C loss.

Similarly, income or losses "derived in the conduct of a trade or business from rentals, royalties, patents or copyrights" is added or subtracted.

New Jersey also allows a Section 199 "domestic production activities" deduction. On the federal return this deduction is claimed as an "adjustment to income" and not as a Schedule C deduction. But this deduction, as it applies to the Schedule C activity, will reduce the "net profits from business" reported on the NJ-1040. However, the amount allowed for NJ may be different from the federal deduction. The NJ deduction is calculated on Form 501-GIT.

Along the same lines, contributions to qualified retirement plans made for the benefit of a self-employed taxpayer are deducted as an "adjustment to income". NJ allows qualified contributions to a self-employed 401(k) plan to be deducted from Schedule C business income. Contributions to any other type of self-employed retirement plan are not deductible anywhere on the NJ-1040.

New Jersey has "decoupled" from federal law regarding certain increased depreciation deductions. The federal 50% Special Depreciation Allowance is not allowed on the NJ-1040, and the Section 179 is limited on the NJ return. The appropriate adjustment is calculated on the Gross Income Tax Depreciation Adjustment Worksheet (GIT-DEP), and the amount reported on Line 17 of the NJ return is increased or reduced accordingly.

While the NJ depreciation deduction will be less than the federal amount in the year the bonus depreciation or increased Section 179 deduction is claimed on the 1040, the NJ-1040 deduction will be greater than the federal in the tax years that follow.

Robert D. Flach has been preparing 1040s for individuals in all walks of life for 38 years, and has been a member of NATP for over 20 years. He writes the popular tax blogs **THE WANDERING TAX PRO** (<http://wanderingtaxpro.blogspot.com>) and **THE NJ TAX PRACTICE BLOG** (<http://njtaxpractice.blogspot.com>).

FOREIGN LOTTERIES AND OTHER SCAMS

A FEW YEARS AGO, one of my taxpayer clients called and asked about the taxability of lottery winnings. I was intrigued and inquired about which lottery she had played. Apparently she had not and did not play lotteries in general. She didn't recall playing this particular lottery. Let's refer to it as the Canadian Lottery. She had been notified by some people in a foreign country via the internet that she had somehow won a lottery. By a miracle, she had received a check for a thousand dollars drawn on a Canadian bank as a sign of good faith from the lottery commission. In order to claim her winnings of some five hundred thousand dollars, all she had to do was send a certified check of ten thousand dollars back to the issuer of the good faith check. The taxpayer had thought that a check was a good as money. All she had to do was deposit it. Of course the check she had received had no funds to back it and the check had bounced. It was impossible to put a stop order on the certified check she had sent. First, it is very difficult to put a stop order on a certified check. Second, the certified check had already cleared.

The taxpayer lost the ten thousand dollars sent to the perpetrator of the fraud. She was charged a fee by the bank for the issuance of the certified check and she was charged a fee for the check that bounced. I had helped her recover the miniscule bank fee she was charged for the bounced check. The taxpayer asked me if any of the loss was tax deductible. In order for her to have any chance of deducting the loss, I told her she had to try to recover the loss as best as she could. I had already outlined her Form 1040 and had determined she did not have a balance due. I also filed Form 4868 for an Extension of Time to file. I knew that this may take a little while to resolve and only wanted to go through the tax preparation process once. First the taxpayer had to file a police report for the theft of her ten thousand dollars. Second, since the lure for the lottery winnings came through the internet, I had suggested she write to the Federal Communications Commission and report the communication of the lottery winnings. The good news is that she had printed the screen of the notice of lottery winnings. Since the bad check had arrived in the mail, I had suggested she contact the United States Postal Service's Postal Inspector to investigate the fraud. Then she would have to try to recover the monies through any insurance she might have.

The Federal Communications Commission had responded they could not trace the origin of the lottery notification. The United States Postal Service, with the cooperation of the Canadian government could not identify the recipient of the monies she had sent. I reviewed the taxpayer's homeowner's insurance policy and suggested that she file a claim. She had a deductible of about five hundred dollars and there were some internal limits with respect to theft. The fact she had filed a police report and excellent records helped her with her insurance claim. She was awarded about eight thousand dollars. Form 4684 for casualties and thefts was completed. Since there had been an insurance recovery of 80% of money lost within the same tax year, the net loss was substantially less than ten thousand dollars sent to Canada. There was no tax benefit, but I had helped the taxpayer get back a good portion of her monies by keeping her focused on contacting governmental authorities and filing for an insurance reimbursement. Of course the taxpayer was upset about not filing her tax return by April 15th and that my fee was more than the prior year's. Last week another taxpayer asked me about the taxability of foreign currency transactions. I have a sinking feeling I will have a similar report on this case within a year.

Marc Standig, EA

YOU KNOW YOU'RE IN NEW JERSEY WHEN...



Read the menu at any Jersey diner and you'll probably see something called a P.E.C. What exactly is a P.E.C., you out-of-staters may ask?? It's a pork roll (also known as Taylor Ham), egg and cheese on a Kaiser roll, also known as a heart attack on a plate!!

Taylor Ham (aka pork roll) is an indigenous Jersey creation that may date back as far as the 1700's. The "Original Taylor Ham" comes from the Taylor provision Company of Trenton and is sold in supermarkets in NJ.

Until recently, Taylor Ham was unavailable outside of NJ, but it has been said that Publix supermarkets in Florida are carrying Taylor Ham, probably for the large number of snowbirds who can't wait for spring when they return to Jersey!!

Can this Jersey favorite get the recognition it deserves? Probably not, but surely all of us who, love this Jersey fixture will try to let the rest of America know what they're missing!

And now for the big question: *ketchup or mustard??*

NEW!!NEW!!NEW!!

Form 1099-G, Statements for Recipients of State Tax Refunds from the New York State Department of Taxation and Finance is now available electronically. New York will no longer mail Form 1099-G to taxpayers beginning this filing season. By supplying this information electronically, an approximate saving of \$700,000 is anticipated.

Taxpayers who need to know their 2008 NYS refund amounts to complete their federal returns can:

- Get the form online, using the 1099-G online service
- Call (518) 485-0799 (in-state callers without free long distance can call 1-866-698-2946.)
- See: <http://tax.state.ny.us/pit/1099g.html>

★
a
little

JOKE
du JOUR

★ **Q:** What do tax pros suffer from that ordinary people don't?

A: Depreciation.

★ Whomever said that truth never hurts never had to fill out a Form 1040.

★ There are two types of people who complain about paying their income tax:
Men and women.

★ I hate junk mail . . .and that includes the tax forms they send me.

★ **Q:** What is the definition of Death?

A: When you stop paying taxes suddenly.

★ **Q:** Why is a tax loophole like a good parking spot?

A: As soon as you see one, it's gone.

CALENDAR *of Events*

BREAKFAST SEMINAR

Mt. Laurel Marriott, May 20th, 2010

ANNUAL CONFERENCE

Woodbridge Hilton, September 30th, 2010

NATIONAL CONFERENCE IN AUSTIN TEXAS 7/19-7/22

TECHNOLOGY (TOP) CONFERENCE IN AG

Sheraton, September 20-21, 2010

ESSENTIAL 1040 & BEYOND THE 1040

Check NATP Website

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609-633-6657 for Personal Income Tax
609-633-6905 - for Business Tax

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For practitioners with POA on file to call
about a specific client problem:
866-860-4259
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