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New 1099 reporting for Rental Property Owners

The Small Business Jobs Act, passed in September, created a new reporting requirement for individuals who receive income from rental real estate. Starting in 2012, they will have to provide 1099s to any service provider to whom they pay more than \$600 during the year. This means that starting Jan. 1, 2011, rental property owners should start keeping records of payments and collecting Form W-9 information.



On Nov. 16, the AICPA issued a letter to Congress raising concerns about the expanded Form 1099 reporting requirements.

The American Institute of Certified Public Accountants has called on Congress to repeal burdensome information reporting requirements placed on busi-

nesses and rental property owners by the *Patient Protection and Affordable Care Act* and the *Small Business Jobs Act of 2010* because “businesses do not need the added cost of more regulatory requirements at a time when their efforts must be focused on profitability and sustainability.”

“Increased profitability is likely to yield more tax revenues than the expansions to the reporting requirement,” the AICPA said.

Under the *Patient Protection and Affordable Care Act*, businesses making purchases of \$600 or more for goods or services from another business would have to provide the vendor and the Internal Revenue Service with a Form 1099-

See '1099' on pg 2

Effects of new financial overhaul

So what's all the fuss over the new financial reform law? The headline-grabbing law raised quite a furor on Wall Street, but what does it mean for you and me? Here is how the law will affect ordinary folk.

The biggest change associated with the new law is the creation of a new federal agency, the Consumer Financial Protection Bureau. The mandate of the Bureau is to create and enforce regulations that will protect consumers of financial products much as the government

now regulates safe practices for products such as vehicles and food. Areas of enforcement will include credit and debit cards, mortgages, and student loans.

Financial institutions will be required to clearly state the terms of consumer loans and follow strict guidelines designed to ensure that borrowers get a loan they can afford. Deceptive practices, such as hidden interest rate increases, will be illegal. Surprisingly, one important consumer financial product was left untouched. Car

loans will not be regulated by the new agency, so “buyer beware” continues when borrowing for a car.

How you use your credit or debit card might also change. Bank overdraft fees will no longer be automatically assessed on debit card transactions. Instead, banks are required to give their customers a choice of accepting overdraft protection – along with the fee charged when overdrawn – or to allow their debit card to be

See 'Overhaul' on pg 3

New restrictions on health accounts

This year a tax advantaged health account (such as a flexible spending account, health reimbursement account, health savings account or medical savings account) can be used to purchase aspirin, flu medications, allergy pills, cold medicines, and other over-the-counter medications.

Effective January 1, 2011, funds from these accounts can no longer be used to purchase over-the-counter drugs unless the taxpayer has a prescription for them. Insulin is an exception and will still be eligible for tax-free reimbursement without a doctor's prescription.

W-2 reporting of health costs

The IRS and the Treasury are giving employers additional time to adjust payroll systems and procedures to meet the requirement to include the cost of employer-sponsored health coverage on employees' W-2 forms. This reporting requirement was mandated in the 2010 health care reform legislation and was scheduled to take effect with the issuance of W-2 forms for 2011.

Reporting the cost of coverage will be optional for Forms W-2 issued for 2011. Employers who fail to report the cost of health coverage for their employees will not be subject to penalties. The IRS notice included a reminder that the reporting requirement is for informational purposes only. The amount reported on an employee's W-2 is not taxable income to the employee.

Todd Falcone,

MA, CFE,

Assistant Controller,



earned bachelor's degrees in accounting and finance at Saint Vincent College. He also earned a Mastery of Accounting in 2008.

Falcone assisted with several projects since becoming a part of the Donnelly-Boland and Associates team. At one such assignment, he helped compile 10 years of payroll data for a major healthcare organization and organized it in MS Excel, so the data could be used to amend past payroll returns, prepare corrected W-2s, file claims with the IRS, and secure reimbursement for the period in question.

In addition to other duties, he is the 2011 coordinator for the upcoming tax season. His work with tax season has lead him to the status of reviewer among our tax preparers. Falcone earned certification as a QuickBooks Advanced ProAdvisor and in Point of Sale V8 and Enterprise Solutions V9. His initiative also led him to earn certification as a Certified Fraud Examiner.

See '1099' from pg 1

9595 <input type="checkbox"/> VOID <input type="checkbox"/> CORRECTED		OMB No. 1545-0115	
PAYER'S name, street address, city, state, ZIP code, and telephone no.		1 Rents	2010 Miscellaneous Income Form 1099-MISC
		2 Royalties	
		3 Other income	
PAYER'S federal identification number		4 Federal income tax withheld	Copy A For Internal Revenue Service Center File with Form 1096.
RECIPIENT'S identification number		5 Fishing boat proceeds	
RECIPIENT'S name		6 Medical and health care payments	For Privacy Act and Paperwork Reduction Act Notice, see the 2010 General Instructions for Certain Information Returns.
Street address (including apt. no.)		7 Nonemployee compensation	
City, state, and ZIP code		8 Substitute payments in lieu of dividends or interest	
Account number (see instructions)		9 Payer made direct sales of \$5,000 or more of consumer products to a buyer (recipient) for resale	
2nd TIN not <input type="checkbox"/>		10 Crop insurance proceeds	11
15a Section 409A deferrals		12	
15b Section 409A income		13 Excess golden parachute payments	14 Gross proceeds paid to an attorney
16 State tax withheld		17 State/Payer's state no.	
\$		18 State income	\$
Form 1099-MISC		Cat. No. 14425J Department of the Treasury - Internal Revenue Service	
Do Not Cut or Separate Forms on This Page — Do Not Cut or Separate Forms on This Page			

MISC information return. The first 1099 forms would be due in 2013, so businesses would need to begin keeping records in 2012. Under the *Small Business Jobs Act of 2010*, similar reporting requirements would apply to owners of rental property for expenses related to the rental property and would take effect in 2011 for reporting in 2012.

The AICPA said this would be first time individual

taxpayers who own rental property who are not "engaged in a trade of business" would have to provide Forms 1099-MISC. For example, owners of vacation properties that are rented part of the year to help reduce costs would be covered by the new law. "We are concerned that (1) keeping records to track expenses by provider, (2) obtaining tax identification numbers and other information from providers of property and services and (3) providing Forms 1099-MISC during January, a month when taxpayers would not normally be focused on tax issues, would be extremely burdensome." Additionally, the AICPA said it questions the need for sending information forms to certain providers of services, such as utility companies.

The business implementation costs associated with the likely generation and receipt of millions of forms and the potentially challenging reconciliation processes for taxpayers should be weighed against the uncertainty of the benefit to be derived by the government, the AICPA said.

Identical letters were sent to all members of the U.S. House of Representatives and Senate.

For more information about 1099 reporting, call or visit one of the Donnelly-Boland offices.

‘Overhaul’ from pg 1

rejected by the retailer when there are insufficient funds in the buyer’s account.

Also, the fee that credit card companies charge retailers to process customer charges will be limited by the Federal Reserve, which might trickle down to savings for consumers on their purchases.

On the flip side, retailers have the option to require a

minimum debit card charge of up to ten dollars, and using a credit card to pay college expenses may have limits.

Many of the changes in the law are directed to banks’ financial health, hopefully making your bank stronger and safer. The FDIC insurance limit has now been permanently increased to \$250,000.

Financial institutions must restrict their investment

in hedge funds and private equity products. And banks will have to increase their capital reserves, with no institution allowed to become so large that it represents more than 10% of the banking market.

Many of the law’s practical implications have yet to be worked out. So stay tuned for more changes to come.

For information on overhauling your finances, stop in or call us.

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Harvest some losses to lower your 2010 taxes

Consider the following strategy between now and the end of the year to restructure your investment portfolio in a tax-efficient manner.

Taxpayers are allowed to offset capital gains (such as from the sale of stocks) with capital losses. If capital losses exceed capital gains for the year, up to \$3,000 of losses can be deducted from other income, such as wages. Any loss greater than that can be carried forward to future years. It’s important to remember that stocks you’ve owned for more than one year (called long-term) must be grouped together for purposes of calculating the capital gain or loss. The same is true for stocks held for one year or less (short-term).

Here’s the strategy. When you identify stocks in your portfolio that have lost value and are no longer worth holding, consider selling those securities and offset all but \$3,000 of the loss by also selling stocks that have gained value. This is known as “tax loss harvesting,” and it can be an effective method for rebalancing your portfolio without paying capital gains taxes.

You can often manage the size of your gain or loss when you decide to sell some, but not all, of a particular stock or mutual fund. To do this, you must have kept good records of the date and the price for each share purchase. By selling the

highest cost shares first, you’ll minimize your taxable gain or maximize your loss. You must specify the particular shares you are selling at the time you sell.



Kevin Boland is our Executive VP and available at our home office in Baldwin for help with lowering your taxes.

Mike Wilson is our Waynesburg Branch Manager. He can suggest strategies to lower your taxes.



Jamie Scherich, our Glassport Branch Manager, can suggest for restructuring your portfolio in a tax-efficient manner.

Ryan Babiak, our Branch Manager in Brentwood, can discuss your 2010 tax withholding and recommend future strategies.



References, Citations, and Suggested Additional Readings for Material in the December 2010 Newsletter

We thought you would appreciate having references, citations, and additional reading sources on topics in each issue of the *Monthly Newsletter*.

“New restrictions on health accounts”
– IRS Notice 2010-59.

“W-2 reporting of health costs optional for 2011”
– IRS Notice 2010-69.

“How does the new financial overhaul law affect you?”
– *Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010.*
– *Credit Card Accountability Responsibility and Disclosure Act of 2009.*

“New 1099 Reporting Requirement”
– *AICPA News, Vol. 13, No. 50*

NOTE: A questionnaire is enclosed for you to fill out before bringing in your tax information.

This newsletter provides business, financial, and tax information to clients and friends of our firm. This general information should not be acted upon without first determining its application to your specific situation. For further details on any article, please contact us at one of our locations:

Baldwin at 412.882.5383, Brentwood at 412.884.4829, Glassport at 412.664.7554 or Waynesburg at 724.627.6491.

*Happy
Holidays*

Thank you for selecting Donnelly-Boland and Associates for your tax and accounting needs. We appreciate the confidence you have shown in us, and we remain ready to assist you at any time. Also, thank you for recommending us to your family, friends, and associates. We appreciate your referrals.

Thanks!
We appreciate you!

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