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Fifteen Things to Watch Out for on Form 1040

A Thomson Reuters tax analyst explains what's new, changed, or no longer available on the 2012 individual income tax return

NEW YORK, March 13, 2013. While it looked as if the U.S. Congress would go over the fiscal cliff and allow many tax provisions to expire, in the end, Congress extended most of the expiring provisions. This means that 2012 return preparation will not be as difficult as it could have been. "But that doesn't mean you can let your guard down on the Form 1040," says Jeffrey Pretsfelder, CPA/Esq., a senior tax analyst at Thomson Reuters. "Like every other year, you must be on top of new or changed provisions on this year's Form 1040 and provisions that were in effect last year but are no longer in effect this year."

Here are the top new or changed items on the 2012 Form 1040:

New items and changes that apply whether or not the individual is a business owner:

1. *2010 Roth IRAs and pension distributions.* In 2010, a taxpayer could have rolled over monies from a regular Individual Retirement Account (IRA) to a Roth IRA, converted a regular IRA to a Roth IRA, or taken similar steps with a "designated Roth account," and deferred the taxes that were due on the rollover, conversion, etc. Part of that deferred tax is due as part of 2012 tax.

2. *Transfers from IRA to charity.* The provision that excludes up to $100,000 of qualified charitable distributions (distributions to a charity from an IRA if the taxpayer is at least 70 ½ years old and meets other requirements) has been extended. And, if the taxpayer elects, a qualified charitable distribution made in January 2013 will be treated as made in 2012.

3. *Local lodging expenses may be deductible.* New rules permit businesses and employees to deduct local lodging expenses under limited circumstances.

4. *New limits on first-year write-offs for vehicles.* While a part of the cost of a vehicle may be deductible in many circumstances, there are limits. First-year limits for vehicles first placed in service in 2012 are $11,160 for autos and $11,360 for light trucks or vans (if bonus depreciation rules apply) and $3,160 and $3,360, respectively (if bonus depreciation rules do not apply).

5. *Adoption credit less favorable. "*The maximum credit you can take for adopting a child decreased from $13,360 per child for 2011 to $12,650 per child for 2012," notes Pretsfelder. "And, it's no longer refundable – which means that if your credit exceeds your 2012 tax, the credit will reduce your tax to zero, but the excess amount is not refunded to you (although you may be able to carry it forward to 2013)."

6. *Child tax credit form changes.* New Form 1040, Schedule 8812 replaces Form 8812 for computing the refundable child tax credit. The schedule also contains a new section which must be completed if claiming either the refundable or the nonrefundable credit for one or more children who have individual taxpayer identification numbers (ITINs) instead of social security numbers.

7. *Education credit form changes.* Form 8863, Education Credits, has a significantly different format for 2012. New Part III asks for additional information about each student for whom the

taxpayer is claiming an education credit. And a separate Part III must be completed for each student for whom the taxpayer is claiming a credit.

8. *Inflation adjustments.* As is the case every year, there are inflation-related adjustments for 2012. For example, the standard deduction, the deduction for each exemption, and the amount a taxpayer can earn and still get an IRA deduction, all increased based on inflation.

9. *Tax payment voucher is mandatory.* In past years, filing of Form 1040-V, Payment Voucher, was voluntary for paper (versus e-filed) returns where tax was due with the return. For 2012, filing the form is mandatory.

10. *New mailing address.* Because the IRS has changed the filing location for several areas, there may be a different mailing address to use if filing a paper return this year.

New items and changes that apply to business owners:

11. *Decrease in special depreciation allowance.* Businesses that acquired qualified property in 2011 could, in many cases, claim a 2011 special depreciation allowance equal to 100 percent of the cost of the property. With limited exceptions, a business that acquired qualified property in 2012 can only take a special depreciation allowance equal to 50 percent of the cost of the property.

12. *Self-employment tax's reduced rate.* The self-employment tax rate is 13.3 percent. This is the same rate as applied to 2011, but it is lower than previous year rates.

And, here are some tax breaks that no longer apply for 2012:

13. *First-time homebuyer credi*t was eliminated in 2011, except for servicemen and certain other federal employees who had lived abroad in earlier years. For 2012, it has been eliminated for everyone.
14. The *District of Columbia first-time homebuyer credit* cannot be claimed for homes bought after 2011.
15. The *qualified plug-in electric vehicle credit* expired for vehicles acquired after 2011.

"Whether you are doing your own taxes or having them done by a professional preparer, make sure you gather all pertinent information that may affect your eligibility for both new tax breaks and the ones that have been around for awhile," says Pretsfelder. "The effort spent doing this can yield substantial tax savings."

Taxpayers should consult with a tax adviser before applying these or other tax strategies.

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