


Smith Sullivan & Company PC

CERTIFIED PUBLIC ACCOUNTANTS

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Dear Friends and Clients,

Happy New Year and Welcome to the 2011 Tax Season!

I've enclosed our standard *engagement letter* along with a *tax organizer packet*, both of which are an important part of preparing your 2010 personal tax returns. The engagement letter is an agreement which simply confirms the arrangements and responsibilities involved in preparing your tax returns. The engagement letter also outlines our fee schedule and informs you that our minimum individual tax preparation fee is \$325.

The tax organizer booklet is meant to assist you in gathering the appropriate information necessary to prepare complete and accurate tax returns. From an economical viewpoint, a completed organizer will enable us to compile and review the tax return in a more efficient manner, and thus minimize the cost of preparing your returns. In response to increased IRS regulation and hefty fines imposed on tax preparers, we have implemented a policy whereby **we must receive your signature(s) on the organizer packet (page 2) and the engagement letter in order to process your tax return.** In addition, we are required to ask you all of the questions in the organizer and need to make sure that you address any relevant questions. Please note that the organizer may contain pages which do not apply to your situation, but please be sure to complete Forms 3 and 4 of the organizer, which contain personal information and the electronic filing information. **Due to new documentation requirements for charitable contributions, Form 15 must be completed and returned with your organizer package. Please be advised that we cannot include your donations without this form.**

Under Massachusetts law, most residents age 18 and over are required to have health insurance, if it is affordable to them. Residents who have access to affordable coverage but do not obtain the coverage may face state tax penalties. Residents and certain part-year residents must file *Schedule HC, Health Care Information* with their Massachusetts tax return. Failure to complete this form will result in a delay in the processing of the return. **The Massachusetts Information (Page 2 of 2) form of the organizer must be completed and returned to us in order to process your Massachusetts tax return.** Also, again we've added a page to the organizer for Massachusetts residents that address the commuter deduction.

We have also included a **mandatory** worksheet for any use tax that you may owe for out-of-state and online purchases that would normally be subject to Massachusetts Sales Tax. We must have your written reply for the sales tax option applicable to your situation before we can prepare your Massachusetts return. **If the sales and use tax worksheet is not completed, we will use the safe harbor method for calculating the out-of-state use tax.** The organizer contains more detail on these Massachusetts topics.

You may be able to take the First-Time Homebuyer Credit if you bought a primary residence and you (and your spouse if married) did not own any other primary residence during the 3-year period ending on the date you bought the home. You must meet the required deadlines to be eligible to claim the credit. You must have bought or entered into a binding contract to buy a principal residence on or before April 30, 2010. If you entered into a binding contract by April 30, 2010, you must have closed on the home on or before September 30, 2010. The credit generally is 10% of the purchase price of the home but is limited to \$8,000 (\$4,000 if married filing separately).

If you do not qualify as a first-time homebuyer, you may be eligible for a reduced credit, if you entered into a binding contract to buy a primary residence on or before April 30, 2010 and closed the sale on or before September 30, 2010.

If this credit applies to you, you must provide a copy of your HUD settlement statement with your organizer package in order for us to calculate the credit.

In 2009, the Residential Energy Property Credit returned and increased the credit rate to 30% of the cost of all qualifying improvements and raises the maximum credit limit to \$1,500 for improvements placed in service in 2009 and 2010. The credit applies to improvements such as adding insulation, energy-efficient exterior windows and energy-efficient heating and air conditioning systems. **Note: the maximum credit is \$1,500 for the years 2009 and 2010 in total.** The credit may also apply to the purchase of qualified solar property such as solar electric and solar water heating property, with no limitation on the credit amount. Please provide copies of invoices and qualified manufacturers' statements of energy efficiency.

For the tax year 2010, the mileage rate for business use of vehicles was 50 cents per mile, medical and move-related mileage was 16.5 cents per mile and 14 cents per mile for service provided to charitable organizations. **If you are eligible to deduct mileage, you must provide us with your total mileage information, including business, commuting, personal, medical and move-related and charitable mileage.**

We are required to electronically file all individual tax returns, unless you specifically state in writing that you do not want to electronically file your return. Therefore, if you are strongly opposed to filing electronically, please be sure to indicate your choice on the enclosed engagement letter, then sign and return the engagement letter with your tax information. **As a reminder, if you file your tax returns electronically, it does not mean that you must also pay your taxes electronically.**

On the positive side, with electronic filing, if you are due a refund, you'll get your money much quicker. Also, the IRS has reported less errors on input and therefore, less erroneous notices when electronic filing is used. Our Firm will be responsible for tracking each and every tax return and managing the electronic filing process.

Please bear in mind that it is not necessary to transfer the numbers from your forms 1099, W-2 and K-1 onto the organizer; in fact, we enter that type of data directly from the actual tax forms. You should attach all form 1099s, W-2s, K-1 forms, excel spreadsheets and/or Quicken/QuickBooks (or other similar) reports to the organizer. These documents, if attached to or referenced in the organizer, will be incorporated by reference into our engagement. Please make sure that the organizer reflects your most recent address and contact information, correct social security number(s) and date(s) of birth. With electronic filing, we are required to input and review complete W-2 and 1099 information, including the employer/payer identification numbers prior to electronically filing the tax return. Please be sure to submit all **original W-2 and 1099 forms to us.**

Once you have gathered your tax information, please call for an appointment or if you feel that an appointment is unnecessary, simply mail your tax information with the signed engagement letter and the signed organizer to our office and be sure to include a telephone number or e-mail address where you can be reached. Our policy is to process all tax returns in the order that they are received, so if you have a specific deadline or other time constraint, please advise us as early as possible.

Taryn Delaney, our Administrative Assistant, will be coordinating the tax appointment calendar. Taryn can be reached at extension 10 or by e-mail at Taryn@smithsullivancpa.com. Unless otherwise requested, Taryn will be scheduling appointments in one-hour time blocks, so if you have a particularly complicated tax return, please be sure to let her know to block off additional time. We'll be scheduling evening appointments on Mondays through Thursdays beginning on February 7, 2011 and Saturday appointments beginning with February 12, 2011. If you have deadlines imposed by college financial aid applications, please contact us immediately to schedule an early appointment. Please note that due to the corporate tax deadline of March 15, 2011, we will not be able to schedule individual tax appointments between March 7 - 12, 2011.

Following the late December's tax law changes, the Internal Revenue Service announced that the upcoming tax season will start on time for most people, but taxpayers affected by three recently reinstated deductions need to wait until mid- to late February to file their individual tax returns. In addition, taxpayers who itemize deductions on Form 1040 Schedule A will need to wait until mid- to late February to file as well. The filing delay does not mean that we can't have your returns entered, reviewed and ready to upload. We can be ready to transmit the returns and once the IRS revises and releases the forms and software on its end, we will transmit. So, please do not allow the IRS delay to deter you from sending us your documentation or from setting up your tax appointment.

Taxpayers will need to wait to file if they are within any of the following three categories:

- Taxpayers claiming itemized deductions on Schedule A.
- Taxpayers claiming the Higher Education Tuition and Fees Deduction. This deduction for parents and students, covering up to \$4,000 of tuition and fees paid to a post-secondary institution, is claimed on Form 8917. However, the IRS emphasized that there will be no delays for millions of parents and students who claim other education credits, including the American Opportunity Tax Credit and Lifetime Learning Credit.
- Taxpayers claiming the Educator Expense Deduction. This deduction is for kindergarten through grade 12 educators with out-of-pocket classroom expenses of up to \$250. The educator expense deduction is claimed on Form 1040, Line 23, and Form 1040A, Line 16.

Each year, as we approach the end of tax season, with only one or two weeks to go, we receive a staggering amount of tax returns to process, and while we scramble to accommodate all of our clients, we find it nearly impossible to accommodate everyone. Please understand that we will make every effort to complete each and every tax return; however, we cannot make guarantees for returns received after March 31, 2011, which is also the last day we can schedule appointments.

We're working very hard to streamline our tax preparation services to minimize the turn-around time and we appreciate your patience. Our goal is to work together as a team and to provide you with professional, yet cost effective, tax preparation and consultation. We'd like to thank you for your business and your referrals, and we look forward to hearing from you soon.

Sincerely,



Linda M. Smith, CPA
Managing Partner