A New Year with Onerous New Tax Rules

December 29, 2010 - With only a couple of days to go before the new year, the chances are that you may be more focused on what you will be doing New Year's Eve than on new tax laws that go into effect at the beginning of the year. But what you don't know can actually hurt you financially. And starting next year, there are several new tax rules going into effect that could be difficult or downright onerous to deal with for both individuals and small businesses.

(function() {
var s = document.createElement('SCRIPT'), s1 = document.getElementsByTagName('SCRIPT')[0];
s.type = 'text/javascript';
s.src = 'http://widgets.digg.com/buttons.js';
s1.parentNode.insertBefore(s, s1);
})();

One rule that all homeowners need to be aware of is that beginning in 2011 you will not be able to use your property taxes as a deduction unless you file an itemized return. Given the large number of people who are currently unemployed and have little personal income, this change is an especially unwelcome change. Many people who are unemployed are still homeowners. Under the new rules, they will no longer be able to file 1040 short forms with the IRS. Instead, they will have to itemize their expenses and deductions. For those not comfortable with doing this on their own, the choices are few and unappealing. Either spend money to hire someone to do your taxes - money which you may not have - or forego the deduction entirely - and give up money which you may really need.

If you have been using online auctions to supplement your income, then you need to be aware that beginning January 1, credit card companies and PayPal will start reporting sales made through online auction houses to the IRS. It appears that anyone who makes more than 200 transactions or receives payment of $20,000 or more over the course of the year will be reported.

For anyone who falls into this category, your record keeping needs to become very good. None of the payment companies that will be reporting to the IRS have any way of knowing what the goods you are selling actually cost you. That means that if you purchased something for $50 and were able to sell it for $100, what the IRS gets will make it look like you had $100 in income when you really only made $50 on the sale.

And finally, if you are self employed or making any purchase that is tax deductible, then beginning Saturday you will need to provide a 1099 form to any merchant that you buy more than $600 worth of goods from. That's not $600 in a single transaction either. It means $600 over the course of a year. And it doesn't matter if those purchases are made from your neighbor Joe or from Office Depot.

All of these new regulations are really horrible for small business. They mean that millions of entrepreneurs will have to spend countless hours assembling records rather than earning income. Either that or they will have to waste money hiring accountants to handle this on their behalf. Either way, the rules will hold down income producing activities and are likely to have detrimental impact on new job creation going into the new year.

byJim Malmberg
Note: When posting a comment, please sign-in first if you want a response. If you are not registered, click here. Registration is easy and free.
Follow me on Twitter: