

H&R Block's 23M Clients Reveal What Is Top-of-Mind This Tax Season

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Questions about debt, starting businesses and multiple-generation households make it clear the economy is shaping how people think about taxes and how they are living.

The first-half of tax season is done and H&R Block is hearing some questions much more than others from the millions of taxpayers in its nearly 11,000 retail tax offices, through H&R Block At Home do-it-yourself tax preparation tools and the Get It Right Community tax forum.

"With more than 23 million clients coming through our doors, using our DIY products and visiting our tax forum every year we hear many recurring themes and get a pretty good idea about what is on the minds of taxpayers," said Kathy Pickering, executive director of The Tax Institute at H&R Block.

The following questions (and answers) were among the top searched by taxpayers and tax professionals on the H&R Block At Home online community and The Tax Institute at H&R Block website.

1. My parents are older and they live with me. Can I deduct their expenses?

The tough economy is taking a big bite out of the sandwich generation; 16 percent of U.S. families have at least two adult generations living in their household -- a 33 percent increase from 1980(1). This increase of multiple-generation households is prompting more taxpayers to ask when they can claim their parents or adult children for the \$3,650 qualifying relative exemption. To be eligible for the benefit, elderly parents and adult children must have less than \$3,650 in taxable income. Also, half of all eligible expenses of the parent or adult child must be paid by the taxpayer seeking the deduction.

2. The bank foreclosed on my house. Is the gain taxable?

With foreclosures rising 72 percent overall among the 206 metro areas covered by RealtyTrac(2), taxpayers are asking about the resulting tax implications.

Any gain on a foreclosed property is taxable and must be reported. But, the Mortgage Forgiveness Debt Relief Act of 2007 may allow the gain to be excluded when the foreclosed home was the taxpayer's primary residence and the gain occurred between Jan. 1, 2007 and Dec. 31, 2012.

3. My credit card debt has been forgiven. Will it be taxed?

When monthly credit card payments go unpaid, a debt collector may offer settlement for 30-40 percent of the original sum. If the settlement is accepted and paid, or when the creditor determines it cannot be recovered, the creditor will issue a 1099-C to the IRS. Taxpayers who don't include the unpaid debt or the forgiven portion of the debt as income on their tax returns may get an IRS bill that includes penalties and interest.

4. I took the First-time Homebuyer Tax Credit in 2008. Do I have to re-pay it?

Homeownership may have declined in 2010(3), but the First-time Homebuyer Tax Credit is a hot topic for taxpayers wanting to know who's eligible and who has to pay it back. Taxpayers who claimed the credit in 2008 must start repaying it this year in annual installments over 15 years. However, taxpayers who claimed the credit in 2009 and 2010 do not repay the credit unless they sell the house or stop using it as their primary residence within three years of purchase.

5. I bought energy efficient windows for my home. Can I claim the home energy credit?

Worth up to a \$1,500 lifetime credit in 2009 and 2010 combined, eligible improvements include external windows and doors, insulation, roofing, HVAC and non-solar water heaters meeting specific energy guidelines. Taxpayers who missed the credit in an

earlier year can still claim it in 2011 - but only up to \$500 lifetime limit.

6. Are my property taxes and mortgage interest tax deductible?

Homeowners can deduct property taxes and mortgage interest as itemized tax deductions. Homeowners whose itemized deductions are less than their standard deduction should use the standard deduction, as that will result in lower federal income tax liability. Though called the "standard deduction," it varies based on age, filing status and other factors.

7. I'm an entrepreneur who started a business in 2010. Are my start-up costs deductible?

With unemployment hovering at 9.5 percent for much of 2010, many created their own jobs by starting their own businesses. Taxpayers who opened a business in 2010 can deduct up to \$10,000 of eligible start-up costs, up from \$5,000 in 2009. Qualifying expenses include advertising, business property rent, supplies, taxes and licenses.

8. I have a full-time consulting assignment. How is my income tracked?

Form 1099-MISC is sent to the IRS to report income, royalties and other types of income paid to independent contractors. For independent contractors who work from home, often freelancing or consulting, Form 1099-MISC commonly is used to report contractor compensation.

9. Are my college tuition costs reported to the IRS?

Eligible educational institutions submit Form 1098-T to report information about their students to the IRS as required by the Taxpayer Relief Act of 1997. The 1098-T includes the student's enrollment status, qualified tuition and related expenses, scholarships and grants - taxable or not.

10. I was married in the summer of 2010. Do I file as a single or as married?

Marriage, re-marriage and the times before and in between can make taxpayers ponder their IRS tax filing status, which determines tax rates and standard deduction amounts. Filing status for the entire year is determined by the status as of Dec. 31 of the current tax year. The options are single, married filing jointly, married filing separately, head of household or qualifying widow (er).

H&R Block provides guaranteed, income tax return preparation services through its company-owned and franchise offices, and the H&R Block At Home online and desktop solutions. For an online tutorial, join H&R Block's Get It Right Community tax forum, and visit its Facebook and Twitter pages.

The advice provided in this release is for general reference purposes. Tax situations vary based on individual circumstances. A tax professional should be consulted for specific tax advice.

1 USA Today (January 2011 article) 2 RealtyTrac (January 2011 report) 3 Los Angeles Times (January 2011 article)

About H&R Block H&R Block Inc. (NYSE: HRB) is one of the world's largest tax services providers, having prepared more than 550 million tax returns worldwide since 1955. In fiscal 2010, H&R Block had annual revenues of \$3.9 billion and prepared more than 23 million tax returns worldwide, utilizing more than 100,000 highly trained tax professionals. The Company provides tax return preparation services in person, through H&R Block At Home(TM) online and desktop software products, and through other channels. The Company is also one of the leading providers of business services through RSM McGladrey. For more information, visit our Online Press Center.

About The Tax Institute at H&R Block The Tax Institute at H&R Block is the go-to source for objective insights on federal and state tax laws affecting the individual. It provides nonpartisan information and analysis on the real world implications of tax policies and proposals to policymakers, journalists, experts and tax preparers. The Institute's experts include CPAs, Enrolled Agents, attorneys and former IRS agents who draw from years of experience and H&R Block's extensive network of resources. For more information visit our press center at <http://thetaxinstitute.com>.

Kate O'Neill Rauber
816-854-4287
Email Contact

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