Safe-harbor deduction computation. Taxpayers can use an optional safe-harbor method to compute their deduction for mortgage interest and real property taxes on their main home if both of the following are true:
1) They are eligible to deduct all of the mortgage interest on their loan and all of the property taxes on their main home.
2) They participated in an HFA Hardest Hit Fund program in which program payments could be used to pay mortgage interest or they participated in an EHLP.
Under the safe-harbor, individuals deduct the sum of all payments they made during the year to their mortgage servicer, the state HFA or HUD on their mortgage (including the amount shown in box 3 of Form 1098-MA), up to the amount of mortgage interest received, mortgage insurance premiums and property taxes shown on Form 1098, Mortgage Interest Statement, in boxes 1, 4 and 5. (Notice 2011-14)

Form 1099-K, Merchant Card and Third Party Network Payments
Beginning in 2011, payments made by banks and other payment settlement entities with regards to merchant cards and third-party networks generally must be reported to the recipient on Form 1099-K (certain exceptions apply). Merchant cards include Visa and MasterCard. Third party networks include PayPal and Google Checkout.

Caution: Schedules C, E and F were revised for 2011, adding a separate line to report merchant card and third-party network payments. However, due to possible issues with the new Form 1099-K reporting, the IRS is not requiring separate reporting of such payments on 2011 returns. See Line 1: Gross receipts or sales on Page 6-5 and Form 1099-K reporting requirements on Page 8-1.

FOREIGN FINANCIAL ASSET REPORTING
For tax years beginning after March 18, 2010 (generally, 2011 and later), individuals who hold any interest in a specified foreign financial asset during the tax year are required to attach certain information about each such asset to their income tax return, if the total value of all specified foreign financial assets exceeds $50,000 on the last day of the tax year or $100,000 at any time during the year. If filing a joint return, reporting is required if the value of couple’s specified foreign financial assets exceeds $100,000 on the last day of the tax year or $200,000 at any time during the year. The information must be reported on Form 8938, Statement of Specified Foreign Financial Assets. Failure to do so results in a minimum $10,000 penalty. (IRC §6038D)
A specified foreign financial asset is either (1) a financial account maintained by a financial institution that is not a U.S. entity or (2) any of the following assets not held in an account maintained by a financial institution:
• Stocks or securities issued by a person other than a U.S. person.
• Financial instruments or contracts held for investment that have an issuer or counterparty other than a U.S. person.
• Interests in a foreign entity.

Caution: This reporting requirement does not affect the requirement to file Form TD F 90-22.1 (Report of Foreign Bank and Financial Accounts) which may be required if the taxpayer has an interest in, or signature authority over, a bank account located outside of the U.S. So, some taxpayers may have to file both forms. The Form TD F 90-22.1 is not attached to the Form 1040. Instead, it is filed separately, no later than June 30 following the calendar year for which it applies.

HSA AND MSA CHANGES
Qualified Medical Expenses
Distributions from health or medical savings accounts (HSAs or MSAs) are not taxable to the extent they are used to pay qualified medical expenses. Generally, qualified medical expenses are the same as those that qualify as an itemized deduction under Section 213. See Medical Deductions on Page 5-1.
Before 2011, over-the-counter drugs, such as pain relievers, allergy medicine and antacids were qualified medical expenses for HSAs and MSAs, even though they were not deductible medical expenses under Section 213. Starting in 2011, the cost of an over-the-counter drug (other than insulin) is not a qualified medical expense for an HSA or MSA unless the individual obtains a prescription for that drug. [IRC §220(d)(2) and §223(d)(2)(A)]
A prescription is a written or electronic order for a medicine or drug that meets the legal requirements of a prescription in the state in which the medical expense is incurred, and that is issued by an individual who is legally authorized to issue a prescription in that state. (Notice 2010-59).

Note: The cost of insulin continues to be a qualified medical expense without the need for a prescription.

Observation: Reimbursements of qualified medical expenses under an employer’s health flexible spending arrangement or health reimbursement arrangement are also tax-free to the extent of qualified medical expenses, as defined for HSAs and MSAs. [IRC §106(f)]

Penalty on Excess HSA and MSA Distributions
Starting in 2011, the penalty tax for nonqualified withdrawals (distributions before the owner turns age 65 that are not used for qualified medical expenses) from HSAs and MSAs is increased to 20% [IRC §220(f)(4) and 223(f)(4)]. The penalty is computed on Form 8889 for HSAs and Form 8853 for MSAs.

Expanded Form 1099 Reporting Repealed
Reporting By Businesses
Under the 2010 Health Care Reform Act, payments to corporations and gross proceeds paid in consideration for any type of property made in the course of a trade or business were scheduled to be subject to information reporting on Form 1099 starting in 2012.
However, the Comprehensive 1099 Taxpayer Protection and Repayment of Exchange Subsidy Overpayments Act of 2011 repealed these rules. Because the repeal was as of the original effective date of the new rules, the new rules never went into effect.

Reporting By Landlords
The Small Business Jobs Act of 2010 subjected recipients of rental income from real estate to the same information reporting requirements as taxpayers engaged in a trade or business, starting in 2011. So, rental income recipients making payments of $600 or more to a service provider (such as a plumber, painter or accountant) in the course of earning rental income would have been required to provide Forms 1099-MISC to the IRS and to the service provider.
The Comprehensive 1099 Taxpayer Protection and Repayment of Exchange Subsidy Overpayments Act of 2011 also repealed these rules, as of the original effective date of the new rules. Therefore, the new rules never went into effect.