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TAX NEWS & TIPS

FALL 2012

Too Much Work – Too Little Time

It's true for me. It's true for you. It's true for Congress.

Congress has a full plate. The Great Recession drags on. So does the war on terror. Energy, pollution, the mortgage market – you name it.

As I send this off to be printed, July is over. Congress will meet briefly, and then break for campaigns and the elections. Another short session late this year, but any really important changes will wait for the new Congress convening in January.

You and I face the world of your income tax. Several familiar laws have expired, more are set to expire. Some *might* still be extended. I'll discuss some important items in this issue, but I must warn you - - - *both* of us must be prepared to see last-minute changes in tax laws.

High Court OKs Health Reform – What Now?

In July the Supreme Court said Congress' 2010 Health Reform Act is not unconstitutional. What will you and I see as a result?

Two Cautions. First, this is not a popular law. Many feel it may still be repealed. Wait and see. Second, the law is massive, with rule changes scheduled every year from 2010 through 2018. Every single rule has its pros and cons. This law may be as large as 1939's Social Security Act – we still love to argue about that one! Expect change – lots of change. For now, I can only describe what's "on the books".

Health Insurance For All is the goal of the law. A noble concept, but the cost is staggering. Congress will leave health care itself to the private sector, but will insist we all have insurance coverage.

As many as 20% of Americans do not have health insurance. That's around 60 million of us. Imagine the cost of their premiums! The law will force all of us to share the costs. As always, a bigger burden will fall on those more able to pay.

New rules will force businesses and citizens to have health insurance or to pay penalties. The cost of the coverage will fall on individuals, businesses, insurance companies and health care providers. Low income Americans will pay the least. High income folks will pay more than their share. This is much like our "graduated" income tax rates.

☑ **Revenue Raisers.** Mandatory coverage won't start until 2014, but raising money for the increased costs starts next year, in 2013.

Higher Medicare Tax. As part of the social security system, workers pay a 1.45% Medicare tax on all their wages. Starting in 2013, earnings over $200,000 ($250,000 if you're married) will face another 0.9% on the extra wages. Same for self-employed folks. IRS already worked out rules to police this using your tax return. After all, some folks change jobs, some file as married, but withhold as if single.

Medicare Surtax. Starting in 2013 an extra 3.8% income tax will apply to any "investment" income if your income exceeds $200,000 ($250,000 for couples). This will apply to your income from interest, dividends, capital gains, annuities, rentals, and a few other things.

Higher Medical "Floor". If you itemize deductions instead of using the "standard" deduction, your medical deductions have a special rule. You may only deduct costs in excess of 7.5% of your income. This "floor" will jump to 10% beginning in 2013. Folks over 65 won't face the higher "floor" until 2017.

Other Revenue Raisers. Workers with "flexible spending accounts" for medical costs will have a "cap" of $2,500 on their pay-ins. Retired folks paying for Medicare Part D drug coverage may not deduct their premiums. A 2.3% excise tax will apply to all "medical devices". In 2014 health insurance companies must share an extra $8 billion tax. This extra tax is set to rise to $11.3 billion by 2018. Drug makers paid a similar $2.5 billion tax in 2011. This will eventually rise to $2.8 billion. Clearly the extra taxes will be passed on to you and me, the consumers.

☑ **Insurance or Fines.** Starting in 2014, individuals who remain uninsured will face penalties. These "fines" start as low as $95 per year, but increase as your income climbs. By 2016, the top penalty is set to be $2,085 each year.

Help For Some. At the same time, there will be "subsidies" for lower income folks, in the form of tax credits to help pay for coverage.

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This Issue

At present, these credits are set to follow a sliding scale based on income. They will go to single folks with income as high as $43,320. For families, income can be as high as $88,200 for a family of four. IRS is just now starting to work out details. They say subsidies could eventually be more than $5,000 per year for some families.

Large Businesses that don't provide health plans for their employees will also face penalties. Firms that hire 50 or more full-time employees could face a penalty as high as $2,000 for each uninsured employee.

Small Businesses already get special tax breaks if they pay for insurance. This began in 2010. This tax "credit" applies to firms with fewer than 25 employees. The rules have many complex steps. IRS estimated late last year that only one-third of the businesses that qualified for the tax rebates in 2010 claimed them! No word yet on 2011 claims.

☑ **Insurance "Exchanges"** Each state must set up its own "state health insurance exchange". Exchanges will oversee rates, pass out government "credits" to assist low income folks, and more. As of July only three states have exchanges in place. Ten more states passed laws to form them, but no details yet. 35 states have yet to act. New Jersey and New Mexico passed laws and promptly vetoed them. Wait and see.

Summary Only. I have described only the major parts of this law. There are far more details. One large publisher of tax-related material put out a book on the law with more than 950 pages! The news media have produced many hours and thousands of pages of discussion.

As more details are hammered out I'll have more to say.

Expect Changes! The law is huge! If it survives, we can expect lots of fine tuning. For many years to come.

Most discussion looks at whether the law is "good" or "bad". The answer is - - - YES! Lots of both. The Supreme Court didn't say the law is "good". They simply said forcing us to have health insurance is not a violation of our Constitution.

Republicans have vowed to repeal the whole thing. In order to do this they probably need to win the Senate and the Presidency, plus keep control of the House. We'll learn more in November.

Any exceptions? Sure. The law has dozens, maybe hundreds. Here's one very controversial one: some religions favor prayer and faith over medical science. The law says their members won't be forced to have insurance. We all can find things to argue about in this law!

If the law survives, IRS has the job of implementing and enforcing it. They will discover many more areas where this law needs clarification or exceptions. They have the authority to make adjustments.

More flaws are certain to surface. America is a nation of 312 million people. Each "one-in-a-million" case rates to pop up more than 300 times! As I said before, if this law survives, it will be fuel for argument and debate for many years to come.

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Mandatory Pension Withdrawals

In two situations you can be forced to take money from a pension.

Normally we earn money and pay our income taxes. Then, we can spend what's left whenever and however we choose. But, in some cases, the income tax burden is "deferred". Your pension holds money you have not yet paid taxes on. Plus – the money *grows* without a tax bill. IRS won't let the tax deferral go on forever – there are rules that *force* you to take money and pay your tax.

The rules here apply to regular pensions, your IRAs (except Roth IRAs), and self-employed plans.

In two cases you are forced to take the money:

1. Your Own Account – Age 70½. You must begin withdrawals in the year you reach 70½. Your custodian (bank or broker) will tell you the amount each year. Life expectancy tables are the key. They divide your account balance at end of the prior year by a factor based on your age at the end of the current year. Here a few entries:

Age Factor		
70 - 27.4	73 - 24.7	77 - 21.2
71 - 26.5	74 - 23.8	78 - 20.3
72 - 25.6	75 - 22.9	79 - 19.5
	76 - 22.0	80 - 18.7

The full table goes to age 115, but you get the idea.

The answer gives the *minimum* amount you must take. You are free to take more, but must face the taxes. Take less and IRS charges a penalty of 50% of the shortfall.

Any exceptions? Heavens, yes!! Where one spouse is more than 10 years younger than the other, there's a different table! Call me, or talk to your custodian.

2. Inherited Accounts – Any Age! Suppose Dad passed away in 2011 and you inherit his IRA account. Starting in 2012 you must take minimum distributions. This is true for all – even a small child can face this rule!

Same Idea, More Rules. More rules kick in, depending upon decedent's age, whether or not there are multiple beneficiaries, and who the beneficiaries are. We normally use a life expectancy table, but a *different* one.

When To Distribute. Your minimum distribution simply needs to fall within the calendar year. Take the amount monthly. Take a lump sum. You can even wait until December 31 if you like.

Complex Issues. If you think your case is unusual, I may be able to help. Sometimes you may combine multiple accounts for the arithmetic, but take the money from a single account. Your custodian may not be of help here if the accounts are held in different institutions. After all, if you are penalized by IRS for taking too little, the custodian fears you might sue *his* institution.

Spouses. I already mentioned an exception where spouses are far apart in age. Another applies in the case of a death. Surviving spouse has the option of turning the decedent's IRA into his/her own IRA – this can delay the onset of minimum distributions.

Careful! It's Taxable. Clearly the distribution adds to your tax. I can help you plan the withholding to avoid a rude shock at tax time!

50 Good Reasons To Call Me

Seems as if you just filed your 2011 returns? I know. However, staying on top of your taxes is a year-round job. To be able to help you I must keep myself up-to-date on changes in your financial life.

Frankly, to do my job well I really need to BE you! Stand in your shoes. See things from your point of view. Some of your *plans* may have tax implications. Things that *happen* in your life can affect your taxes.

I can't do your returns right now. Nor can I make your decisions. Often, however, I can help you avoid costly mistakes and save some tax dollars. I just need to know what's going on. Call me right away if you:

1. Changed your address
2. Changed jobs
3. Got a big raise or bonus
4. Exercised a stock option
5. Retired
6. Got married or divorced
7. Had a child
8. Adopted a child
9. Sent your child to college
10. Had your child finish college
11. Opened an account for a child
12. Collected unemployment
13. Start receiving Social Security
14. Started collecting a pension
15. Cashed out an IRA
16. Won a prize
17. Won big at the track or casino
18. Won the lottery (We'll need to discuss this at a nice restaurant – your treat!)
19. Served as a paid executor
20. Received a director's fee
21. Won a lawsuit
22. Collected alimony
23. Paid alimony
24. Sold stock or securities
25. Began mutual fund investing
26. Opened a retirement account
27. Sold your home
28. Bought a home
29. Helped the kids buy a home
30. Refinanced your home
31. Remodeled your home
32. *Think* of starting a business!
33. Finally wrote a living trust
34. Added someone to the title on your home
35. Bought a rental
36. Remodeled a rental
37. Started renting out your home
38. Let a friend move into a rental at reduced rent
39. Sold a rental
40. Began using a car for business
41. Sold your business car
42. Became a telecommuter
43. Let spouse use the business car
44. Cashed in EE Bonds
45. Inherited some money
46. Inherited an IRA or pension
47. Reached age 59½
48. Reached age 70½
49. Became disabled
50. Are confused

There are even more! But I think you're getting the idea. It's simple. My job is to keep up with tax laws. They can have an impact on you in every area I've listed, and quite a few more. Where tax laws are involved in what's going on, I want to help you understand the rules and any new recordkeeping you face. Even better, if we work together, we might be able to help you save some of those tax dollars. Let me help.

Looking For Work? Track All Expenses!

We are still in the midst of record unemployment. I sincerely hope your own job is secure. But, when it's time to look for another job, there can be some very valuable tax savings available to you.

If You Itemize Deductions you are allowed to deduct job search costs. If you use the standard deduction, this may or may not help you. The current standard deduction is $5,950 for single filers, twice as much for couples. Until your total deductions exceed this, you get no help. There's also a "floor" to contend with – only those work-related costs exceeding 2% of your gross income give you any help. Once you exceed these limits, you can't afford to miss any of the costs. Any "forgotten" deductions are money down the drain.

Same Occupation Requirement. I wish I could say Tax Law looks at you as a person. Unfortunately, it views you as a producer within the economy, something like a machine. Keeping that machine running is tax deductible. As long as your search is within the same general occupation, all costs count. A teacher can deduct costs to look for work in the field of education, but not to get a job as a welder.

Types Of Costs. Almost anything related to the search counts. Agency fees, costs to produce a resume, duplicating employment files, even a couple months' of your on-line fees if you use the computer in your search. Look for copy costs, postage, and office supplies. Be alert for any magazines, books, or newspapers you bought to help in your search. Costs to acquire work history records or school transcripts cannot be ignored.

Travel vs. Transport. You need to go to various places. Going to pick up materials, confer with others, or for job interviews leads to deductions.

"Transport" refers to getting around within your metropolitan area. For most of us, that's driving. In 2012, you may deduct 55.5¢ for each mile you drive for business purposes. Keep a log of interviews, meetings, trips for copying – it really adds up. If you don't drive, costs for bus, taxi, or what you pay a friend to help with your transport is deductible. In addition to the transport, you may deduct costs for parking or tolls along the way.

"Travel" involves being away from home overnight or longer. Now you may deduct all expenses – mileage or fares, shuttles, rental cars, taxis, hotels, meals – any out-of-town costs. For meals, there are allowances – probably easier than keeping records. I just need to know dates and locations of your out-of-town activities.

Be alert for anything connected to your search. Even buying lunch for a friend who can provide a contact or special introduction may be appropriate. I hope you find the right job quickly and easily. But, if you keep track of your costs and activities from the beginning, I'll see to it that you save every tax dollar the law allows.

Tips For You

Tune Up Your Living Trust. It's a good idea to review living trusts with an attorney every couple of years. With a trust, estates don't face probate after a death. Maybe. "Maybe" because items clearly *belonging* to the trust are protected. If you bought or sold property, or opened a new bank or brokerage account, the form of title is critical. If family or wishes have changed the trust needs changes. If you moved to another state you may face different laws. Even without moving, your state's laws may have changed.

Estate Tax Uncertainty has made many people delay planning. Nobody can tell you what laws we'll face in 2013. Maybe you've been waiting for these issues to become clear, but in the meantime made some of the changes above.

A trust is like a new car. It was expensive to buy, but now you must see to its maintenance, or face a stall.

Identity Theft To Slow Refunds. IRS says they'll take steps next year to reduce tax-related identity theft. Thieves who learn a person's social security number file tax returns in January claiming refunds. The scam is not noticed until your actual return "bounces" at IRS – they already have a return! Next year IRS will take more steps to stop phony refunds. This will slow down the processing of returns, and the issuing of refunds.

Track College Costs. If your youngster will be in college this September, please remind them to keep track of books and supplies. We may claim all costs for classes, down to pens and pencils, copy fees at the library, and new software to comply with a professor's special requirements. Part of the on-line fees, or even the new computer may count. Convince the student to keep records. You'll save money!

Same-Sex Unions. Six states allow same-sex marriages. Seven more recognize at least some form of "domestic union". The Defense of Marriage Act (DOMA) in 1996 states marriage is between a man and a woman. In recent years DOMA has come under fire in the courts. This year a district court in New York let a same-sex spouse claim an estate tax marital deduction after the other spouse died. *(Edith Schlain Windsor v. US)* So far IRS holds firm for income tax. Though a *state* may allow the couple to file jointly, they must file as single persons on the *federal* return.

FICA Withholding To Increase. If you have social security taxes withheld at work, expect less take-home pay in January. We are in the second year of a 2% reduction of your FICA withholding. That's the "retirement" part of social security. Today 4.2% of your first $110,100 of earnings goes for this tax. The number is set to become 6.2% in January. If you earn $52,000, that's a $20 weekly decline in take-home pay. There's talk of an extension, but I'll believe it when I see it.

Extensions Expire October 15. A few of you still have not filed for 2011. Please make an effort to find the missing information. We have little time left. In most years I am not quite as busy this time of year. 2012 is very different! I expect to have more tax-planning work with clients who are confused over new rules. At the same time, I want to give my full attention to your return. I want to keep your taxes to the absolute minimum.

Tax avoidance is your duty as a citizen. Tax evasion is a Federal crime!

Justice Leland Hand - U.S. Supreme Court

Your Tax Calendar

Sept. 17	3rd quarter estimated tax payments due.
Oct. 15	Extensions to file 2011 Form 1040 expire.
Nov. 1	3rd qtr. payroll returns due. (Nov. 10 if tax paid in full and on time.)
Dec. 31	Last chance for deductions in 2012.
Jan. 15	4th quarter estimated tax payments due for 2012.

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