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TAX NEWS & TIPS

YEAR-END 2012

Election, Tax Time, Uncertainty!

I sent this issue out to be printed and folded a couple of days before the elections. By now, we know who was elected. Coming months will show us what our new leaders can accomplish.

But - - - "Tax Time" is near, and I can't delay any longer. I know the tax laws as they exist at this point in time. In 2010 Congress passed a big "extenders" bill in mid-December. Something similar could happen this year. Watch the news.

For now, we need to start getting ready for our annual chore. I'm forced to look at the laws on the books today.

Looking At 2012

A number of helpful rules expired with 2011. Congress insists they'll extend several. We could see some extensions late in 2012, or even early in 2013. However, IRS needs to design new tax forms and prepare to accept returns. They told Congress any changes after December 1 will mean delays in processing tax forms.

For now, I want to help you get ready for your 2012 tax returns. I'll list important tax savers for 2012. Then I'll mention the expired items.

2012 Tax Savers

✓ College Education. We have 3 different tax benefits here. Undergraduate work, graduate courses, and week-related study each have different rules. One benefit can knock a full \$2,500 off your tax bill for each student! If you can provide complete information, I'll see to it that you get the largest possible tax savings. Please give details on the school, the student, level of study, and costs for the courses themselves,

as well as for all books and supplies. I need to know how costs were paid, and whether there was any form of grant or aid. If use of a computer is required for the course work, we can consider the computer's cost, as well as on-line fees and special software. For job-related courses I even need to know about driving to classes.

✓ Home Energy Credits.

For a few years we had two different kinds of credits - one for conserving energy, and another for generating energy. Only the second one still applies.

Generating Energy. Big help if you install solar heating or power generating equipment. 30% of your total cost turns into a tax reduction. No limit on costs. The credit can be claimed for any home you personally occupy, even for a vacation property. Rentals don't qualify. This one won't expire until after 2016.

✓ Other Helpers. A couple of reminders for your job, rental, or business:

- **Mileage Deductions** are worth 55.5¢ for each business mile. Don't miss any!
- **Businesses.** Consider placing new equipment in service prior to Dec. 31. Depreciation rules allow a "bonus" deduction in 2012, but not in 2013.

Expired Provisions

Here are some expired items we both got used to. Since they *could* be revived, I'll ask you to collect the information. Neither of us should get our hopes up, though.

- **Teacher Expenses** on up to \$250 of classroom materials.
- **Mortgage Insurance** costs are no longer deductible.
- **Charity From Your IRA.** Folks over 70 ½ who had their trustee make direct gifts to a charity got a special deduction.

- **Sales Tax vs. State Tax.** State income tax is always deductible. For the past few years we've been deducting the higher of sales taxes or income taxes. Buying a new car added to sales taxes. This year - state income taxes only!
- **Adoption Credit** is still here, but is smaller, and no longer can be larger than your tax bill.
- **Conserving Energy.** As mentioned, the credit expired.
- **Business Provisions.** Credits for Research and Hiring for the smaller businesses are gone. So are short depreciation lives for certain restaurant and retail spaces.

Gone For Good?

These all expired at the end of 2011. We heard the campaign promises of possible extension. Considering the date, however, we should prepare for the worst. Watch the news, and cross your fingers!

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On Tap For 2013

If Congress does not act, several helpful tax laws are set to run out at year's end. If this happens, many ordinary families could see \$1,000 - \$5,000 of extra tax in 2013.

Important scheduled changes:

10% Tax Bracket is set to become 15%. Most single filers lose about \$435, most couples \$870.

Top four brackets are now 25%, 28%, 33% and 35%. These are set to be 28%, 31%, 36%, and 39.6%.

Child Credits. Each child under age 17 knocks \$1,000 off your tax bill. This is a big help to families, but is set to be cut to \$500.

Capital Gain Rates are now at 0% for low or moderate incomes, and 15% for higher incomes. These are set to become 10% and 20%.

Dividend Income is taxed at the same rates as capital gain. In 2013 it will be "ordinary" income. Normal rates apply, starting at 15%.

Couples lose big. Their 25% bracket starts at \$70,700 of taxable income. The start point is set to drop more than \$10,000 in 2013. Cost - over \$1,000! Add to this a reduced Standard Deduction. Couples now subtract \$11,900 of income before figuring tax. This drops to \$10,150 or so. Another \$260 tax increase!

Several Other Items are set to change. Student loan interest may be deducted only for the first 5 years of a loan. Coverdell education savings programs will be far less liberal. Tax credits for child care expense are set to decline. Folks with high income will lose some of their deductions as well as some of the value of their dependents. Fewer employers can provide tax-free assistance for a worker's education. Estate tax rules for deaths in 2013 are not yet settled.

Alternative Minimum Tax is a complex monster. At present only 4%-5% of all taxpayers face it. If it's not repaired, nearly 30% of us will pay extra tax. Congress has been saying they want to revamp the tax. Sadly, they've sung this song for over 10 years now!

Add These to the expired provisions mentioned on the previous page, and many of us face serious tax increases. Will it really happen? As of Election Day, it's the LAW!

Expect Higher Withholding In 2013

Withholding taxes will increase in 2013. As of early November, figures are uncertain. IRS says not to expect new tables until mid-December. Expect a mad rush for employers to prepare January payrolls. Two laws are involved.

1) Social Security Withholding Increase. In 2011 and 2012 workers got a special tax reduction. Social Security taxes have two parts:

First is OASDI (the "retirement" part). This is normally 6.4%. For 2011 and 2012 the rate has been 4.4%. This ends on December 31. For a worker earning \$52,000 that's a \$20 weekly decline in take-home pay!

Medicare tax is the second part. This remains at 1.45%.

The OASDI portion has a "cap" - tax stops when wages pass \$110,100. The 2013 "cap" will be \$113,700. The Medicare portion has no "cap".

2) "Bush Tax Cuts" - Will They Expire? Tax rates are set to go up in 2013. The 10% bracket will become a 15% bracket. If this comes to pass, you can expect another increase in withholding.

Withholding varies with earnings and the "status" claimed on Form W-4. Someone making \$40,000 might see little change if several allowances are claimed. But, most such workers will see increases of \$500-\$900.

Both Changes! - Look Out! If both measures are reflected in the new tables, you can expect a noticeable drop in take-home pay. Single workers earning up to about \$40,000 can expect a little more than \$1,200 additional withholding. That's about \$100 monthly! Married workers would see their annual withholding go up nearly \$1,500, or a full \$125 monthly! Married workers earning over \$65,000 or so will see even bigger increases because of the lower starting point of their 25% tax bracket.

Watch January's Checks! Pay careful attention to changes in your first couple of paychecks. You likely need this to cover your increased tax bill!

Maybe I Can Help - Maybe I Can't! I always try to help you foresee changes in your taxes. If we see late changes, it will be my busiest time of the year. Extending a familiar rule is one thing - I already understand it. When we see brand new laws, it often takes weeks to learn how the rules work. During my busy "tax season" I don't have the extra time. We may have to simply "pick up the pieces" later on.

Looking For Work?

Unemployment is still high, and you may be looking for work. There can be valuable deductions from a job search. It's not always true, for there are a couple of steps involved:

1) Itemize. You need to be able to itemize your deductions. If you don't have enough other deductions, your job search won't help.

2) Same "trade or business". You must seek employment in a field where you have worked. Finding a new line of work won't count.

Keep A Log. Please track phone numbers, dates, and likely employers while you look. Keep a complete written record of the process. Log all costs, contacts, driving, and times spent on your pursuit. I'll help you get the most tax benefit possible.

Direct Costs. Watch for fees to an employment agency, cost of resumes,

copying, postage, telephone, travel or driving for interviews.

Indirect Costs. We might make a good case for part of on-line fees, new software, extra telephone costs, a meal with someone who provided a useful tip. The secret is in how well your log describes your activity.

Got The Job? Now look for costs of starting work. Setting up a desk or work space, special tools, needed supplies. Keep records!

Moving? Perhaps you even had to relocate. If so, the costs of moving over 35 miles can be deducted. Any costs to relocate your family, pets, vehicles, and possessions count. Movers, packing, shipping, truck rental, storage, and any other direct costs of the move must be tracked.

I hope you find a great job, but let's keep your taxes as low as possible.

January – Let's Get Ready!

Preparing your tax information is easy if you spend a few minutes weekly. Keep records in a special place. Review them each week.

Most tax records show up in your January mail. IRS gets a copy too, so don't miss any of these!



W-2s. Read them carefully. Contact employer if there is a problem, or if one is missing after January. If you can't find employer, you'll need to collect your pay stubs.



1099s. You get a 1099-INT or 1099-DIV for accounts paying interest or dividends. Even tax-exempt interest is reported. NOTE: brokers often need to issue "Corrected" forms. They may warn you of the possibility – be alert for such an announcement.

Other 1099s. Real estate sales yield a 1099-S. Stock sales – 1099-B. Pensions – 1099-R. Foreclosures & debt consolidation – look for 1099-A and/or 1099-C. There are others. Look for "Important Tax Information Enclosed" on the envelope.



Form 1098 is for mortgage interest if paid to a bank. For private loans, find the payment book or a statement from lender. 1098-T shows college tuitions. They are sent to the student – tell the youngster to watch for this form – you'll need it!



Other Income. Look for reports of state tax refunds, unemployment income, prizes, gaming wins, or rent you collect. Read each of these carefully.



Your Records. Check your records carefully for income and deductions. Look back on the year. A calendar or check register will help your memory. I'd prefer you have receipts for all expenses, but if you recall paying a deductible expense, claim it. Contributions are different – you must have receipts, or your deduction is denied.

Start now. Make a list of items you're missing. Write down any questions you might have for me.

Take a few minutes each week to review your information. Short reviews help you remember items you might miss. Your subconscious mind will dig up things you forget. It's your money at stake here – it's up to you to protect it!

Need To Send 1099s?

You may need to send Form 1099 to someone else. There are two cases:

- **Businesses.** You must report payments for services.
- **"Nominee" amounts.** If you are named as receiving income, but part or all of the income really belongs to someone else, you are a nominee.

You must send Form 1099 to the other party by January 31. IRS wants their copy by February 28. You pay a penalty for not sending them!

Businesses. If you paid \$600 or more to anyone during 2012 you may need to issue the form. Look at "business" expenses only. Expenses in your personal life are not reported. Nor are payments to a corporation.

Some bills show both labor and materials. If any part of the payment is for service, report the *total* amount on Form 1099-MISC. Paying for merchandise alone doesn't count. Rent you pay to an agent instead of a landlord is also excepted. Look for repairs, painters, consultants, builders and the like.

You need name, address, and Tax I.D. Number for these people. Call them or send Form W-9 to request the information. If someone uses their own name, they should give you their Social Security Number (like 555-55-5555). If they give a business name, you should see an Employer I.D. Number (like 55-5555555).

Nominees. If you get a payment in your name, then pay \$10 or more to another, you must file the form. You file the same 1099 as you received, but file as a "middle man". Usually it's Form 1099-INT or 1099-DIV.

Getting the Forms. I can help, or IRS can send you forms. If you need my help, please call early! Call IRS at 1-800-829-3676 for forms. You can see them at www.irs.gov – but will need the official paper forms for filing. Use the proper Form 1099 and Form 1096 as a cover sheet.

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TAX NEWS & TIPS, San Diego, CA

This publication has been sent to you by your tax advisor for informational purposes only. The opinions are generalizations and may not apply to all taxpayers.

Got it All?

Here's a list of items frequently missed. Check it against your list.

- Refinances.** I need to see the settlement statement. Maybe it's best to bring all the paperwork.
- Child Care Expenses.** I need full name, address, telephone and I.D. number of care providers.
- Estimated Tax Payments.** Find date and amount for payments. Look near April 15, June 15, and Sept. 15 of 2012, and January 15 of 2013. A January 2012 payment was claimed on your 2011 return.
- Sales of Property.** The most important thing is the settlement statement. Bring all the paperwork.
- Student Loans.** Form 1098-E reports interest you paid.
- College Tuition.** Form 1098-T lists tuitions. I need the form and details on the courses, all expenses, and who took the courses.
- Sales of Stock.** Form 1099-B shows sale price, and lots of other confusing data. If the broker does not give data on original purchase, find the "buy" slip.
- Business Records.** Be careful to separate purchases of major equipment from other supplies.
- Employer Reimbursements.** If employer reimburses an expense, we need records to be sure we claim only the excess.
- Partnership Information.** Schedule K-1 from partnerships and LLCs always seems to arrive late. Don't worry. Let's do the rest of your return, and be ready to go when the K-1 arrives.
- Social Security Benefits.** Find Form 1099-SSA. We must show the gross amount you got, not your net monthly benefit.
- Special Accounts.** Do you contribute to an IRA, Roth IRA, or Health Savings Account? These and others can cut your taxes.
- Complex Transactions.** Please call early if you have an unusual or difficult transaction. Foreclosures, sales or exchanges of real estate, casualties, and such can take a lot of extra work. We may need to schedule a special meeting, and I may need additional time. Please – help me to help you.

Tips For You

Filing Delays Possible. A couple of factors may cause delays in the "filing season". I've already said we could see late law changes. This happened two years ago, and IRS wouldn't accept electronic returns until February 14. We could see something similar early in 2013.

Identity Theft Issues. IRS says they're taking extra steps to spot fraudulent returns. They say this may delay refunds from 2012 returns. If you suspect you may be a victim of identity theft, check the IRS website, www.irs.gov, or call their special unit at 1-800-908-4490.

Social Security – Tiny Increase. Benefits increase by 1.7% for 2013.

Medicare B Premiums. New figures weren't known in November. Current premium is \$99.60 monthly. Your net check cannot decline, but don't expect a significant increase.

Medicare B Surcharge. If you have high income, you pay extra. Income from your 2011 tax return is used, plus tax-exempt interest. Filers with income over \$85,000 (\$170,000 for couples) pay more. You face the current premium plus a surcharge. In 2012, some paid as much as \$319.70 in monthly premiums.

Brokers Tracking Stock Basis. New law forces brokers to report gain or loss to IRS. Before 2012 they reported only sales. Calculating gain requires data on your purchase.

The new law began in 2011 for purchases in 2011 and later. But, only stocks were covered in 2011. This year mutual funds are added. For 2013 brokers will report most types of securities. But, until assets bought before tracking began are sold, it's still your job to track costs.

Kiddie Tax. For 2012, your son or daughter under age 24 may need to pay tax at your tax rates. Youngsters with investment income over \$1,900 are affected. Warn the youngster not to file a tax return until you and I check this out.

Distressed Property. If you had a foreclosure, short sale, or other loss of a property during 2012, we have a tough job on our hands. I'll need detailed information on the actual events, the balance of all loans, as well as your borrowing history for the property. You may very well be taxed on the amount of any part of the loans forgiven by the lender. I know some exceptions, but I need all details. Please call me right away.

Roth IRA Conversions. Did you move money from an IRA or other retirement account into a Roth IRA this year? I need all details. Not just what was transferred, but complete balances and histories of *all* your retirement accounts. It's possible some of your conversion is tax-free. But, unless I have full information on all accounts I'll have to treat the entire conversion as taxable.

Happy New Year!

Over the years you have come to seem more like members of my family.

As 2012 draws to a close I offer the same wishes as for family and dearest friends.

May 2013 bring peace, contentment, and prosperity to both you and your loved ones.

Happy 2013!

Your Tax Calendar

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| Dec 31 | A check mailed today counts for 2012. Last chance for deductions! State estimated tax paid today is deductible on 2012 Federal return. |
| Jan 15 | 4 th quarter estimated tax payments due. |
| Jan 31 | Employers – Quarterly payroll & FUTA due. W-2's and 1099's due to recipients. |
| Feb 28 | W-2's and 1099's due to IRS. |
| April 15 | 2012 tax returns due. Last day for 2012 IRA or Roth contributions. |