

THE ANSWER[®]

NEWSLETTER



THE FISCAL CLIFF: WHAT GOING OVER COULD MEAN FOR YOUR TAXES

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Even though the election has been decided, there is still plenty of uncertainty as 2012 draws to a close. One of the largest unanswered questions facing the U.S. economy is the approach of the dreaded “fiscal cliff” - the term used to describe the December 31 expiration of the Budget Control Act of 2011. If the government does not change the current policy, the terms of the Act are scheduled to go into effect. Besides major budget cuts to all types of government programs, the expiration of the Budget Control Act will cause most taxpayers to face an large increase in their tax liability.

The Bush-era tax cuts are set to expire. These cuts reduced the marginal tax rates for nearly all U.S. taxpayers. Most of the current individual income tax brackets, 25%, 28%, and 33% brackets, will increase by 3% to their 2001 levels, with the top bracket of 35% increasing to 39.6%. Also set to expire is the payroll tax holiday. This is the 2 percent reduction in an employee’s portion of Social Security, from 6.2% to 4.2% on the first \$110,000 of wages. The expiration of this payroll tax holiday will mean an average tax hike of \$1,000 per year for taxpayers (\$2,200 additional taxes for upper income Americans).

For lower and middle wage earning households, the Earned Income Tax Credit (EIC) is set to expire, which

will be another big loss for those who previously qualified. The EIC is a refundable tax credit available for married-filing-joint couples with an adjusted gross income (AGI) under \$50,270 and single taxpayers with an AGI under \$45,060 (depending on the number of qualifying children). Also expiring is the enhancement to the student loan interest deduction. This allows taxpayers to deduct up to \$2,500 of student loan interest. If the enhancement is allowed to expire, the deduction would begin to phase out and be eliminated entirely at much lower income thresholds. In addition to the payroll tax increase and higher tax brackets, upper-mid and high wage earners face other tax increases. The current capital gains tax rate of 15% will increase to 20%. Also, if the dividend tax structure expires at the start of 2013, dividends will no longer be taxed at 15%. Instead, dividends will be taxed at your personal income tax rates. The new health care reform will add an extra 3.8% surtax on unearned income for certain taxpayers with modified adjusted gross income (MAGI) over a specific threshold - \$200,000 for single and \$250,000 for joint filers. This surtax is imposed on the smaller of the taxpayer’s net investment income or the excess of MAGI over these thresholds.

A series of other temporary tax cuts are scheduled to expire as well. These include the enhanced dependent care and child credits, the repeal of the limit on itemized deductions, the repeal of the personal exemption phase-out, and the exemption for mortgage debt forgiveness. The estate tax is also set for a major increase.

Even if Congress acts to prevent the

Budget Control Act from taking effect, most experts believe that the 2% payroll tax cut will not survive into next year. Not only that, but economists say that capital gains rates will increase over the next several years, and there is general consensus that estate taxes will be increased as well.



Sources:

- http://www.nytimes.com/2012/10/01/business/economy/payroll-tax-cut-unlikely-to-survive-into-next-year.html?_r=0
- <http://cbo.gov/publication/43262>
- <http://www.forbes.com/sites/financialfinesse/2012/10/25/will-the-3-8-obama-care-surtax-apply-to-me/>
- www.irs.gov

☞ SPECIAL POINTS OF INTEREST:

- THANK YOU for the referrals! Your support is truly appreciated.
- BEST WISHES to all of our clients with a birthday or an anniversary in December!
- Merry Christmas!

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INTERNAL REVENUE SERVICE:

IMPORTANT NOVEMBER TAX DATES FOR SMALL BUSINESSES AND SELF-EMPLOYED

-  Wednesday 5 Deposit payroll tax for payments on November 28-30 if the semiweekly deposit rule applies.
-  Friday 7 Deposit payroll tax for payments on December 1-4 if the semiweekly deposit rule applies.
-  Mon 10 Employers: Employees are required to report to you tips of \$20 or more earned during November.
-  Wednesday 12 Deposit payroll tax for payments on December 5-7 if the semiweekly deposit rule applies.
-  Friday 14 Deposit payroll tax for payments on December 8-11 if the semiweekly deposit rule applies.
-  Monday 17 Deposit payroll tax for November if the monthly deposit rule applies.
-  Monday 17 Corporations: Deposit the fourth installment of your estimated tax for 2012.
-  Wednesday 19 Deposit payroll tax for payments on December 12-14 if the semiweekly deposit rule applies.
-  Friday 21 Deposit payroll tax for payments on December 15-18 if the semiweekly deposit rule applies.
-  Thursday 27 Deposit payroll tax for payments on December

19-21 if the semiweekly rule applies.

-  Friday 28 Deposit payroll tax for payments on Dec 22.25 if the semiweekly deposit rule applies.
-  Monday 31 File Form 730 and pay tax on wagers accepted during November.
-  Monday 31 File Form 2290 and pay the tax for vehicles first used during November.

RECENT CHANGES

Please send us an e-mail if any information has changed this past year such as, telephone numbers, e-mail address, number of de-

HOT TOPIC: IRS GIVES ADDITIONAL TIME TO SMALL, AUTOMATICALLY REVOKED TAX-EXEMPT ORGANIZATIONS AFFECTED BY HURRICANE SANDY

As part of the administration's efforts to bring all available resources to bear to support state and local partners impacted by Hurricane Sandy, the IRS is postponing the filing date until Feb. 1, 2013, for some small tax-exempt organizations affected by Hurricane Sandy to take advantage of transitional relief when applying for reinstatement of their exempt status.

Organizations that did not file a required information return or electronic notice for their taxable years beginning in 2007, 2008 and 2009 automatically lost their tax-exempt status, and must apply

if they want to be reinstated. The IRS provided transitional relief for certain small organizations that were not required to file annual information returns for taxable years beginning before 2007, were eligible in each of their taxable years beginning in 2007, 2008 and 2009 to file a Form 990-N e-Postcard, and applied for reinstatement of tax-exempt status on or before Dec. 31, 2012. These organizations may file an application for tax exemption and, if it is approved, will have their tax-exempt status reinstated retroactively to the date the status was revoked. In addition, these organizations pay a reduced application fee of \$100.



To be eligible for the Feb. 1 deadline, the organization's principal place of business must be located in the covered disaster area, or records necessary to meet the application deadline must be maintained in the covered disaster area. If an eligible organization files its application for exemption on or before Feb. 1, 2013, it will be treated as if it had been timely filed on Dec. 31, 2012. Organizations located outside the affected areas must apply for transitional relief by Dec. 31, 2012.

12 TIPS FOR TAX-DEDUCTIBLE HOLIDAY GIVING

- 🔔 You must itemize in order to claim a charitable deduction. You report itemized deductions on Schedule A on your federal form 1040 using lines 16-19.
- 🔔 Only donations to qualified charitable organizations are deductible. (many organizations will actually post their letters on their web site). Keep in mind that churches, synagogues, temples, and mosques are considered *de facto* charitable organizations and are eligible to receive deductible donations even if they are not on the list
- 🔔 Cash deductions, regardless of the amount, must be substantiated by a bank record (such as a canceled check or credit card receipt, clearly annotated with the name of the charity) or in writing from the organization. The writing must include the date, the amount, and the organization that received the donation.
- 🔔 Cash deductions that are not substantiated, such as a cash donation without a receipt, or donations made directly to an individual rather than a qualified charitable organization, will be disallowed. That includes paying for someone else's Christmas presents or lending a helping hand like anonymous donors did at K-Mart's around the country. This does not mean that you should not do these random acts of kindness.
- 🔔 If you have money taken out of your paycheck for charity, be sure to keep a pay stub, a form W-2, or other document furnished by your employer showing the total amount withheld for charity, along with the pledge card showing the name of the charity.
- 🔔 For 2011 only (unless Congress extends it, an IRA owner who has reached the age of 70½ or older can make a direct transfer of up to \$100,000 per year to an eligible charity, tax free. This means that amounts directly transferred to the charity from an IRA are counted in determining whether the owner has met the IRA's required minimum distribution (RMB) but will not be considered a taxable withdrawal. Some restrictions apply, including the fact that distributions from employer-sponsored retirement plans, including SIMPLE IRAs and simplified employee pension (SEP) plans, are not eligible.
- 🔔 For donations of non-cash items, the rule is that you can generally take a deduction for the fair market value of the items – what the item would sell for in its current condition. Be specific when you document your donation, noting the description and condition of the items.
- 🔔 If you make non-cash deductions of clothing and household items, they are only deductible if in good used condition or better. However, if the item is valued at more than \$500 but not in "good" condition, you may still take the deduction if you have an appraisal.
- 🔔 The rules for the donation of a car, truck, other motor vehicle, boat, or airplane are a little different. Rather than use the fair market value of the donation, you are generally limited to the gross proceeds from its sale if the value of the item is more than \$500. You will need to get a form 1098-C, or a similar statement, from the charitable organization and attach it to your tax return.
- 🔔 If the amount of all of your non-cash contributions is more than \$500, you must also submit a form 8283, Noncash Charitable Contributions.
- 🔔 Special rules apply to appreciated goods such as stock, jewelry, or hard-to-value items such as artwork.
- 🔔 Contributions are only deductible in the year made. And yes, that means that credit card charges made before the end of the year are deductible even if the credit card bill is not paid until the next year. Similarly, checks that are mailed by the end of the year will be deductible for this year even if they are not cashed until 2012.



CLIENT SURVEY 2012

1. How did you hear about this company?

- Friend / Colleague
- Internet
- Seminar
- Billboard
- Other (Please list Source): _____

2. Please rate the level of service you received from our team.

- Exceeded my expectations
- Met my expectations
- Below my expectations

3. When you call or visit our office, do we assist promptly?

- You make it easy for me
- You are very helpful
- You can do better

4. Would you feel comfortable recommending our firm to others?

- Yes, absolutely
- Perhaps
- Not at this time

5. What one thing stands out about working with the team at Taylor CPA & Associates, PC?

- Friendly front desk personnel
- Prompt service
- Quality Product
- Nothing

6. Are you satisfied with your consultant's service?

- Yes
- No

7. Was the amount of time allotted to prepare your tax return satisfactory?

- Very
- Sufficiently
- Somewhat
- Not at all

8. Please list something that we did well, below.

- Promptly respond to an urgent matter
- Propose a strategy of benefit/savings to you
- Discover issues unknown to you (client)
- Proactively update you on project status
- Nothing at all

9. Please tell us something that could have been improved upon with our services.

10. If there are any additional comments or concerns, please mention below.

11. Please provide your name and e-mail address so we can personally respond to your questions or comments.

Name:

Email:

Phone:

Please Print and fill out this page in order to help us better serve you as our client. We thank you in advance for your time and feedback.

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REMINDER

Clients, please initiate efforts to pay your estimated tax payments on time to prevent having a large tax balance at the end of the year. Estimates are a part of your tax planning puzzle. If you take out a piece of the puzzle, the overall picture is never complete. Help us, as we assist you to complete your puzzle. Please, contact us with any questions, comments, or concerns.

OUR PRACTICE

Whether you are a small to mid-size company, a start-up business, or an individual taxpayer, the financial decisions you make today will have a lasting impact on your future. Growing and preserving your financial resources can be an extensive task; that is why we have organized ourselves to deliver industry specific solutions for your complex needs. We have a dedicated team of professionals who understand the many issues that can affect your industry as a whole. We will deliver the most advantageous solutions by combining our determination to offer you unparalleled, client centered service with an exceptional competence of the challenges facing you and your business.

Our firm can assist you in the following areas:

- Financial Statements
- General Ledger Maintenance
- Tax Planning
- Tax Compliance
- Business Reports
- Payroll Services
- IRS Conflict Resolution
- Financial & Business Planning
- Practice Management Services
- Various Other Items

