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JANUARY 14, 2013

OFFICE HOURS:
9-5 MONDAY – FRIDAY
9-12 SATURDAYS

Justin will be here with me again this year and with all the changes and delayed forms this will help assure we can meet our deadlines. We will be in the office in January, but this is the month we devote to business returns, payroll reports and the dreaded 1099 forms. We cannot process income tax returns prior to the IRS approved date of January 31, 2013. We will all still be waiting for the financial company and employer forms to arrive the end of January. For some of you these will not arrive until mid-February. We will start processing individual returns on Friday, February 1, 2013. IRS will not allow us to file your return until they open their system.

I will be in Biggs on March 2nd doing tax interviews but need to know all appointments before I leave Sacramento. When I am in Biggs, I can be reached by voice mail at 916-396-6865. I was born and raised in Biggs, which is a small town in Butte County near Oroville. This year I will be driving up to Biggs on Saturday morning and returning late Saturday afternoon. I am calling clients in the area to discuss appointments but if you want to see me while I am in Biggs call ASAP. These will be short trips this year, as Mom is with me here in Fair Oaks for the time being.

What is new for this year's returns

Returns are **due by April 15, 2013**.

AMT or alternative minimum tax got a last minute fix that was much like what we expected with the exemption for 2012 at $78,700 for married filing jointly, $50,600 for singles and $50,600 for head of household filers.

According to the Tax Policy Center, the Bush tax cuts have been extended for 98% of the taxpayers. Or, put another way, only 2% of you will be affected by the cuts. The change that will have immediate effect on almost everyone is the return to 6.20% for the Social Security tax rate (OASDI). There was a temporary adjustment to withholdings and self-employment tax that was extended from one year to two and effective 1/1/2013 it is back where it was. So while technically not a tax increase, it is an increase over what you paid in 2012.

If you earn over $250,000 we will want to pay special attention to your estimated tax liabilities for 2013. Be sure to bring information to allow us to project the tax liability for 2013 and look for tax planning opportunities. My software does allow me to estimate the tax for 2013 based on the new laws so we can give your returns special attention. Again, this requires us to estimate some information as same as prior year but we insert variables to allow for a more accurate estimate. For high income individuals, you will need to know now what the effects of the many changes in tax laws will have on your returns. The changes are too vast to address here and affect only a few people so we will be flagging the returns where we expect it to be important and discuss the changes with you as your returns are prepared. Currently we are looking for a good concise reference to help you to understand how the changes will affect you and will expect to have that available as we start interviews in February.

If you had foreign financial assets in 2012 you may need to file a form 8938 with your income tax returns. While this is not new it is a recent change, so if you have any foreign financial assets, let's discuss them.

IRS likes the new **form 8949 for the capital gains and losses** so it looks like we will be using this form from 2011 on. Again, your brokers are providing more information for cost basis and far more detail is required than back in 2010.

Standard mileage rates changed to $.555 for 2012 with medical at $.230 and charity stalled at $.140. For those of you reporting miles driven, be sure to let me know the number of business miles and total miles. Be sure to mark your odometer readings the first of each year as required by IRS.

Self-employed health insurance is no longer allowed as an offset to self-employment tax but is still allowed as an adjustment to income. If you have a business, your Medicare insurance counts as self-employed health insurance.

Health savings accounts are allowed for Federal, but not for California. For those who have high deductibles this can allow what would otherwise be limited deductions for prescription drugs and medical expenses. Be sure you have evidence to support all distributions are qualified. For those of you who have high deductibles for health insurance, let's discuss the plans.

Roth IRA accounts rolled over in 2010 that did not elect to recognize the income that year will be required to recognize ½ the income in 2012. So, all taxpayers who converted to Roth IRA's in 2010 need to be sure to point this out so we can review the elections made. This is especially important for new clients.

Some of you will be continuing to repay the **first-time homebuyer credits** and we will want to continue to monitor those repayments. IRS now has a new database for monitoring those credits.

IRS is charging penalties for any missed or late 1099 forms. If you are in doubt about the requirements for form 1099 reporting, call us ASAP so we can get the forms into them by mid-February. Again late returns are charged penalties and it can result in delayed processing of earned income credits for some self-employed individuals whose forms were not yet in the system as the returns were processed. Generally, it relates to interest payments of $10 or more or outside services of $600 or more <u>paid by a business</u>. There is a special rule for payments to attorneys by business owners.

Remember also that California requires you to send them information about outside contract services at the time of the contract. If in doubt, prepare the forms – you can avoid penalties which can include the tax liability of the outside contractor if they fail to report the income. EDD is increasing audits and wants to consider anyone paid by the business they can as employees with penalties, so if you have a business and paid non-corporate payments of $600 or more be sure you file the 1099s. Preparing a 1099 will not guarantee it is outside services rather than wages, but it will help your case.

While we are off to a slow start getting the organizers to you – due to the last minute changes that affected both the California and Federal returns, and waiting for both agencies to release forms – we are hopeful that by the time we are ready to actually process returns the agencies will have caught up with us and we will be back on track for the actual processing.