



## Online Advisor – December 2011

### Major Tax Deadlines For December 2011

- \* December 15 - Fourth estimated tax payment for 2011 is due for calendar-year corporations.
- \* December 31 - Last day to set up a Keogh retirement plan for 2011. Deductible contributions for 2011 can be made any time up to the filing deadline for your 2011 return.
- \* December 31 - Deadline to complete 2011 tax-free gifts of up to \$13,000 per recipient.
- \* December 31 - Deadline for paying expenses you want to be able to deduct on your 2011 income tax return.

**NOTE:** Businesses are required to make federal tax deposits on dates determined by various factors that differ from business to business.

**Payroll tax deposits:** Employers generally must deposit Form 941 payroll taxes (income tax withheld from employees' pay and both the employer's and employees' share of social security taxes) on either a monthly or semiweekly deposit schedule. There are exceptions if you owe \$100,000 or more on any day during a deposit period, if you owe \$2,500 or less for the calendar quarter, or if your estimated annual liability is \$1,000 or less.

- \* Monthly depositors are required to deposit payroll taxes accumulated within a calendar month by the fifteenth of the following month.
- \* Semiweekly depositors generally must deposit payroll taxes on Wednesdays or Fridays, depending on when wages are paid.

For more information on tax deadlines that apply to you or your business, contact our office.

## What's New in Taxes

### New law signed by President Obama

On November 21, 2011, President Obama signed the "Three Percent Withholding Repeal and Job Creation Act" into law. This new law repeals three percent withholding on certain payments to government contractors. The law, H.R. 674, was amended to include the "Vow to Hire Heroes Act" which provides tax credits to employers who hire unemployed veterans.



The law creates the "Returning Heroes Tax Credit" and the "Wounded Warriors Tax Credit." Employers may qualify for a credit of up to \$5,600 for hiring a veteran who has been looking for employment for more than six months. A credit of up to \$2,400 applies for veterans who have been unemployed for more than four weeks but less than six months. Employers who hire an unemployed veteran with service-connected disabilities who has been looking for work for more than six months may be eligible for a tax credit of up to \$9,600.

The credits apply to new hires after November 21, 2011, through December 31, 2012. For more information about the new law, contact our office.

### **Tax-cutting time is running out**

Want to lower your 2011 tax bill? The time for action is running out, so consider these tax-savers now.

- \* You can choose to deduct sales taxes instead of local and state income taxes. If you're planning big ticket purchases (like a car or a boat), buy before year-end to beef up your deductible amount of sales tax.
- \* If you're a teacher, don't overlook the deduction for up to \$250 for classroom supplies you purchase in 2011.
- \* Consider prepaying college tuition you'll owe for the first semester of 2012. This year you can deduct up to \$4,000 for higher education expenses. Income limits apply.
- \* Max out your retirement plan contributions. You can set aside \$5,000 in an IRA (\$6,000 if you're 50 or older), \$11,500 in a SIMPLE (\$14,000 if you're 50 or older), or \$16,500 in a 401(k) plan (\$22,000 if you're 50 or older).
- \* Establish a pension plan for your small business. You may qualify for a tax credit of up to \$500 in each of the plan's first three years.
- \* Need equipment for your business? Buy and place it in service by year-end to qualify for up to \$500,000 of first-year expensing or 100% bonus depreciation.
- \* Review your investments and make your year-end sell decisions, whether to rebalance your portfolio at the lowest tax cost or to offset gains and losses.
- \* If you're charity-minded, consider giving appreciated stock that you've owned for over a year. You can generally deduct the fair market value and pay no capital gains tax on the appreciation.
- \* Another charitable possibility for those over 70½: Make a direct donation of up to \$100,000 from your IRA to a charity. The donation counts as part of your required minimum distribution but isn't included in your taxable income.



\* Install energy-saving improvements (such as insulation, doors, and windows) in your home, and you might qualify for a tax credit of up to \$500.

These possibilities for cutting your taxes are just the starting point. Contact us now for a review of your 2011 tax situation and tax-saving suggestions that will work best in your individual circumstances.

## **New Business**

### **IRS issues guidance on cell phone use by employees**

Previously, the "Small Business Jobs Act of 2010" eliminated strict substantiation requirements for business use of employer-provided cell phones. Now the IRS has issued new guidance on the tax treatment for employees.

The IRS explains that the value of cell phones where use may be both business and personal can be excluded from an employee's income if there are "substantial" business reasons for the arrangement. A few examples of substantial reasons include the following:

- \* Contacting the employee at all times for work-related emergencies.
- \* Requiring the employee to be available to speak to clients when the employee is not in the office.
- \* Requiring the employee to speak to clients located in other time zones at times outside the employee's normal workday.

Conversely, if a cell phone is provided to an employee as a nonbusiness benefit, it is not treated as a tax-free fringe benefit.

### **Don't let "sunk costs" lead to poor decisions**

Emotions add zest to life. They propel us to our feet when our favorite running back scores a touchdown. They warm us at an inspirational concert or movie. But in the realm of business and investing, emotions sometimes hinder good choices. In fact, businesses and individuals often let emotions dominate the decision-making process.

This is especially true when choices are based on "sunk costs." Broadly defined, sunk costs are past expenses that are irrelevant to current decisions. For example, many firms hire consultants who sell and install software. In some cases, a company is still waiting — three or four years into the contract term — for a functional and error-free system. Meanwhile, costs continue to escalate. But



are those costs relevant? Managers, especially those who initially procured the software and contractor, may reason that pulling the plug on a failed contract would be "wasting all that money we've spent."

Not true. That money is "sunk"; it's beside the point. Deciding to continue with a non-performing contract instead of staunching the flow of cash and changing course is irrational. It may be difficult to admit that a mistake was made. It may bruise the ego of the decision maker. But abandoning a failed contract is often the wisest decision. The only relevant costs are those that influence the company's current and future operations.

### **Irrelevant costs**

Let's say your firm hires a new salesman. You spend thousands of dollars sending him to training seminars. You assign mentors who take time from their busy schedules to provide on-the-job coaching and oversight. But despite your best efforts, the new hire isn't working out. He doesn't fit your firm's culture; he doesn't grasp the company's goals and procedures; he doesn't generate adequate revenues for the business. As a manager, what should you do? At some point, you may need to terminate that employee and start over with someone else. But what about all that time and money you spent training and mentoring the new salesman? Those costs are irrelevant; they're "sunk." You can't get them back. So the best decision - as of today - may involve cutting your losses and starting anew.

Other examples of sunk costs may be found in the areas of product research, advertising, inventory, equipment, investments, and other types of business expense. In each of these areas, companies spend money that can't be recovered, dollars that become irrelevant for current decision making.

Sunk costs may also cloud one's judgment in the arena of investing. In a completely rational world, people would base investment decisions on the bedrock of estimated future returns. Of course, that's not the real world. Investors hold stocks in companies that are careening into bankruptcy, all the while refusing to sell because they've already committed so much money. Understandable, but foolish. Emotional, not rational. Throwing good money after bad won't salvage a poor investment - or a poor investment decision.

## **What's New in Finances**

### **Do your annual review of beneficiary choices**

Are your beneficiary designations up to date? Do you even know which accounts have beneficiaries and who you've designated? It's easy to lose track. But it's important to keep them current. Here's why.



When you designate a beneficiary for an account, that person inherits the assets in the account, regardless of what your will might say. That's why updating your will periodically might not be enough. Typically, you'll have beneficiaries for each of your IRAs, your 401(k) or other retirement plans, annuities, and insurance policies.

Your designations could be out of date just because of life's changes. Since you made your initial choices, you might have married, had children, or divorced. Some of the beneficiaries you chose could have died, divorced, or married. Their circumstances could have changed so you no longer want them to be the beneficiary.

Also, the tax laws change frequently, and they can have an impact on your choices. Choosing the wrong beneficiary, or failing to name a contingent beneficiary, can affect the long-term value of your IRA assets after you die. That's why it's important to review your choices with tax consequences in mind.

Here's how to update your designations. At a minimum, you should have copies of your beneficiary designations in one place. If you don't, call the trustees of your retirement accounts and your insurance agent, and request copies.

Then review the documents and decide what changes you'd like to make. Make an appointment to review your decisions with your tax and estate planning advisor. Discuss matters such as naming secondary beneficiaries and naming your estate as a beneficiary (sometimes not a good idea).

Finally, send your changes to the account trustee, ask for a confirmation, and keep copies in your records. For any assistance you need, contact our office.

### **Protect your family from these investment scams**

News of yet another investment scam is alarming enough, but when the victim is elderly, the crime seems especially offensive. Senior citizens are a favorite target of con artists for a variety of reasons. Here are some popular schemes to look out for.

#### **\* Precious metals**

Scams take many forms, but those involving gold and precious metals are especially problematic right now. Buying gold is trendy, and it can appeal to a senior's desire for tangible security. Naturally, scammers will take advantage of this appeal. If someone you know is elderly and considering a gold-related investment, make sure they do their homework and work with a reputable company. Anyone pitching gold as a safety net against doomsday scenarios or hyperinflation should be carefully vetted.

#### **\* Investments**

Of course, more traditional investment vehicles can also be dangerous. Life insurance, annuities, and other potentially complex deals can be marketed to prey on an elderly person's fear of running out of money. Investment advisors should only offer products suitable for the age, health, and financial wherewithal of their client. A perfectly legitimate investment can still be all wrong given certain circumstances.



**\* E-mail offers**

By now, repetitive e-mail requests from some foreigner to wire funds to your bank account might seem almost comical, but to those who fall victim to a carefully crafted ploy, it is all too serious. Some very smart people - young and old - have been taken in by these types of scams, and when it happens to an elderly person, the fear of looking incompetent often adds to the problem. Educate the senior in your life to always reject these offers.

**\* Pre-paid services**

Not only do the elderly dread running out of money, they sometimes have an unhealthy concern for being a burden to others. This can manifest itself in attempts to prepay for certain services or signing up for strategies that will pay for bills owed at the time of death. Every so often, when the time comes to cash in these plans, the company is nowhere to be found, or the policy doesn't cover nearly as much as was expected. Like any other investment, the company behind the pitch should be scrutinized.

So, can you protect your senior from all the criminals out there? Probably not. But creating a fire wall around your loved one might call for a softer touch. Stay connected to their daily routine. Who are they spending time with? What are they reading? Become a stronger presence in their life, and the fears and loneliness that often initiate a wrong financial move could be reduced.

## **Take a Break**

### **Happy Holidays**

As 2011 draws to a close, it's time to pause and reflect on our blessings and to express our appreciation to the many people who enrich our lives.

May we take this opportunity...

- \* To wish you and yours the happiest of holidays and a healthy and prosperous 2012.
- \* To thank you for your business in 2011.
- \* To remind you that we welcome your referrals. We would be pleased to have you mention our name to friends and associates who may need our services.

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