CIRIMELLI, PYLE & ASSOCIATES LLP
CERTIFIED PUBLIC ACCOUNTANTS

Online Advisor - August 2012

Major Tax Deadlines
For August 2012

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

It's time for a midyear tax tune-up

We've now reached the mid-point of the year and it's a great time for a tax tune-up. With seven months' income and deductions under your belt, you should be able to make a fair estimate of your financial picture for the full year. By reviewing and making adjustments now, you have time to avoid unpleasant year-end tax surprises.

Sit down with last year's tax return and your financial records through July 31. In each major category, compare your 2012 numbers with last year's numbers. Here are some tips on what to look for:

* **Income.** If wages or self-employment earnings are significantly different from last year, how will your tax liability change? Check whether your income level is likely to push you over the threshold for any tax breaks. Are there actions you should consider to reduce your 2012 taxable income?

* **Investments.** Do you have unusual gains or losses? If so, consider offsetting gains or losses with other investment sales as part of your strategy.

* **Deductions.** Has there been any major change in your itemized deductions? For example, mortgage refinancing can reduce interest deductions. You may want to increase other discretionary deductions if it still pays to itemize.

* **Retirement contributions.** Are you on track to maximize your contributions to tax-favored plans? Have you made IRA contributions for 2012?

* **Flexible spending accounts (FSAs).** If your employer provides an FSA, are you spending enough to use up all your contributions?

* **Taxes withheld.** Do your tax payments seem in line with income, relative to last year's levels? If not, consider changing your withholding or making estimated tax payments.

If you have questions, or if you would like help with your tax review, please contact our office.

Tax-saving provisions are set to expire soon

December 31, 2012, will be a very important date in the lives of taxpayers, because that is the date that many tax-saving provisions are set to expire. What does that mean to you? It means that tax planning for 2012 and beyond will be extremely difficult, but also extremely necessary. In the past, Congress has extended many of these provisions on a year-by-year basis. However, as it stands now, many important tax cut provisions have already expired or will expire. Here are a few of the more important ones that could apply to you.

Expiring tax breaks

* **Employee's share of social security taxes.** The employee's share of FICA taxes will increase to 6.2% after 2012, up from 4.2%.

* **Income tax rates.** The 10% tax rate bracket will be eliminated, and the remaining rates will be higher, with the top rate at 39.6% (up from 35%).

* **Long-term capital gains.** The maximum tax on long-term capital gains will increase from the current level of 15% to 20%. For some low-income taxpayers, the current long-term capital gains rate can be zero. That provision will also be eliminated. Additionally, qualified dividends will no longer be taxed at the long-term gains rates (including the zero rate for lower-income taxpayers). Instead, dividends will be taxed at ordinary income rates as high as 39.6%.

* **Child tax credit.** The current credit, which is $1,000 for a qualifying child, will be reduced to $500.

* **Education credits.** These credits will be revised and severely limited. The changes are too complex to discuss here, but just be aware that if you receive a benefit from the education credits for your children's education, these changes could have a significant impact on your tax return.

* **Student loan interest deduction.** This deduction will be limited to only the first 60 months that interest payments are made, and there will be a much lower income limit where this deduction can be claimed at all.

* **Section 179 expensing deductions.** The first-year expensing limit and qualifying property limit will be reduced to $25,000 and $200,000 (down from the 2012 levels of $139,000 and $560,000).

* **Itemized deductions.** Itemized deductions are currently not reduced by the size of your adjusted gross income. That provision will expire, and itemized deductions will again be reduced for higher bracket taxpayers.

* **Alternative minimum tax (AMT).** The increased AMT exemption amounts actually expired on December 31, 2011. In 2012 the AMT will hit many more taxpayers unless Congress acts once again to increase the exemption levels.

* **Estate and gift taxes.** The estate and gift tax rules will revert to those in effect before 2001. That means the maximum estate and gift tax rate will increase to 55% (up from 35%), and the maximum amount of assets to be left to non-spouse beneficiaries tax-free will be reduced to $1,000,000 (down from the current level of $5,120,000).

What can you do?

You should monitor the tax landscape going forward. It will be more important than ever to determine what provisions apply to you and how they will impact your tax bill. Some of the things that you'll want to examine include the following:

* Should you accelerate income into 2012 in order to take advantage of the current tax rates that may be lower than future rates?

* Should you sell assets that you have held long-term (such as stocks, mutual funds, property) to take advantage of the expected lower capital gains tax rates in 2012?

* Should you sell dividend-paying stocks since the tax benefit for holding such stock may be eliminated?

* Should you prepay some of your children's education expenses by the end of the year in order to receive the maximum benefit of the education credits in 2012?

There are many questions but very few firm answers. Contact us to review these issues and your options.

New Business

Jobs Report: Skilled workers needed

Both political parties are doing a lot of talking about jobs -- talk about creating more jobs, bringing outsourced jobs back to the U.S., and beefing up the manufacturing sector so America once again makes products.

According to many U.S. manufacturing companies, the problem is not the lack of jobs -- it's the lack of skilled workers to fill the jobs that already exist. The U.S. Bureau of Labor Statistics estimates a 2012 shortage of skilled workers of three million. By 2020 that number will reach ten million in manufacturing-related industries, plus millions more in other sectors of the American economy.

Part of the problem can be attributed to automation in manufacturing, changing the skills needed from knowing how to operate machinery used in production to knowing how to operate, program, and maintain new computerized manufacturing equipment.

Another factor is the aging workforce. The average age of American skilled workers is 55. With retirement fast approaching for these critical workers, young people need to be trained to fill the skilled worker gap.

Play to your strengths to revitalize your business

The conventional response to today's lackluster economy is to focus on cutting business costs. That's good advice up to a point, but eventually paring down becomes counter-productive. Once you're done, you're still stalled in the same economic doldrums.

Rather than restricting your strategy to cost-cutting, try playing to your strengths. What product, service, or other customer benefit do you offer that goes beyond the norm? Think about ways to build upon and expand that benefit, and then communicate it to current and prospective customers. If nothing you offer is out of the ordinary, improve your services or offer a new service that nobody else provides.

What makes you stand out?

Look at your firm through your customers' eyes. Why do they do business with you instead of your competitors? Is it the exceptional quality of your products or services, lower prices, peripheral services (such as delivery), your helpful and knowledgeable staff, a convenient location, or some combination of these reasons? Even if you think you already know the answer, double check with your customers. Ask what they like about doing business with you and what additional features or changes would enhance the relationship.

Play to your strengths

Once you've identified your customers' wishes and preferences, start fulfilling them. Emphasize this policy in your marketing communications; prospective customers almost certainly will be interested in the same benefits. You can attract, motivate, and retain customers and staff alike by creating an external and internal culture of honesty, integrity, and service. The external component includes providing value at a fair price, treating customers with respect, and being straightforward in your marketing and sales communications. (Customers who feel misled, manipulated, or pressured are unlikely to come back or to recommend your business to others.)

The internal component includes dealing honestly and fairly with staff and suppliers, rewarding superior performance, and having zero tolerance for misleading or otherwise dishonorable practices.

Focus on your strengths. Discontinue products or services that are indistinguishable from everyone else's or that generate more problems than profits. Instead, emphasize or expand your existing areas of excellence. Promote activities that enhance productivity and/or reduce bureaucracy. (For example: Do away with time-wasters such as meetings that serve no specific purpose.)

Providing value and service in an environment of integrity may sound simplistic, but it actually requires insight, commitment, and ongoing attention. The effect on your bottom line (and self-esteem) will more than justify the effort.

What's New in Finances

Know the facts about IPOs

Do you know anybody who's tripled his money investing in the IPO (initial public offering) of a hotshot new company? It can happen. And many investors thought the recent Facebook IPO was a way to quick riches.

Yet the truth is, most investors don't make money playing IPOs. It's just that no one brags when they lose money. Nonetheless, investors of all kinds are lined up for a shot at the next IPO. So it pays to know the facts before diving in.

First bit of advice: Don't bet the farm. The problem is that generally IPOs are issued by companies with no track record, inexperienced management, and few assets. And, unfortunately, the underwriters for these IPOs are motivated to complete the transaction, collect their fees, and move on. Their compensation is linked not to the quality of the firms they take public, but rather to the number of deals they sell to the public.

To protect yourself, you must do your homework, as you would for any investment. A company planning an IPO writes a prospectus that describes the business and details management's plans for what they intend to do with the money, how fast they intend the company to grow, and what profits they expect. The prospectus also discusses the competition and markets, and, most importantly, describes the risks of investing in the IPO.

Do the necessary research, and be sure you understand the risks before you make an investment in an IPO.

How to coordinate planning for college financial aid

Scholarships, grants, student loans. Learning about the options available to help you pay for your child's college expenses requires a lot of homework. Here's one more thing to study: how to coordinate those sources of funds with your overall financial plan.

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As you probably know, your income and assets, as well as those of your child, affect eligibility for federal student aid. What may not be so obvious is the role early financial planning can play.

*** Expected family contribution**

For instance, say your tax plan includes shifting assets to your child as part of a family-wide savings strategy. When you intend to apply for federal educational assistance, you'll also want to consider the way money and property owned by your child affects the amount of aid you may be eligible to receive.

In general, assets owned by your child equate to less potential student aid. That's because a larger percentage of those assets counts toward the amount of college expenses you're expected to pay out of pocket, also known as your "expected family contribution."

Currently 20% of student-owned assets are included in the expected family contribution, versus a maximum of 5.64% of certain assets owned by you and your spouse.

Tip: Depending on the scheduled enrollment date, you may want to use some of your child's assets for upcoming expenses, such as school supplies or dorm furnishings.

*** 529 college savings plan**

What about putting money in a 529 college savings plan? In addition to being a good estate and income tax planning move, 529 savings plans are treated favorably under financial aid rules, too.

For one thing, the value of the 529 account is considered an asset of the parent in financial aid calculations. That's true whether you own the account or your dependent child does.

For another, qualified distributions from 529 plans you own are not counted as income on the federal aid application.

*** Income management**

Managing your income is another tax planning move that requires consideration of student aid rules. An example: Deciding to recognize capital gains to take advantage of lower rates can add to your "available income" and reduce potential financial assistance.

Increasing your tax-exempt interest can have the same result, as can hiring your child in your family business. Up to 50% of your child's income (after certain adjustments) may be counted in the financial aid calculation.

Maximizing contributions to your qualified retirement plans also affects the financial aid formula.

The balance in your 401(k) or similar account is not included as part of the assets you have available for paying your child's college costs.

On the other hand, pre-tax amounts you contribute via payroll deductions are added to the financial aid application. These voluntary contributions increase available income and your expected family contribution.

Federal student aid rules have changed significantly over the past few years, and additional revisions are likely. If college is in the future for your child, please give us a call. We can help with sound, comprehensive planning strategies that integrate the current rules and allow flexibility for coming changes.

Take a Break

Did you know?

* Did you know that "listen" and "silent" use the same letters?

* Did you know that "race car" spelled backwards still spells "race car"?

* Did you know that "eat" is the only word that if you take the first letter out and move it to the last, it spells its past tense "ate"?