CIRIMELLI, PYLE & ASSOCIATES LLP
CERTIFIED PUBLIC ACCOUNTANTS

Online Advisor - June 2012

Major Tax Deadlines
For June 2012

* June 15 - Second quarter 2012 individual estimated tax is due.

* June 15 - Due date for calendar-year corporations to pay second installment of 2012 estimated tax.

* June 15 - Due date for calendar-year trusts and estates to pay second installment of 2012 estimated tax.

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

Consider better ways to use your tax refund

Tax refunds for 2011 returns are averaging nearly $3,000. What are you going to do with your federal income tax refund this year? Instead of spending the money on things you don't really need -- like a bigger flat screen TV or the latest smart phone -- you might put a sizeable refund to better use. Here are a few suggestions.

* Pay down debt. Improve your overall financial situation by reducing the amount of any outstanding debts beginning with high-interest rate credit card balances.

* Contribute to an IRA. For 2012, you can contribute up to $5,000 ($6,000 if you're age 50 or over) to any combination of traditional and Roth IRAs. Contributions to a traditional IRA may be wholly or partially tax-deductible, while Roth IRAs can provide tax-free payouts in the future.

* Save for your children's education. Investigate the options, such as tax-favored Section 529 plans.

* Build an emergency fund. Set aside some money that will be available in case of emergencies.

Vacation Homes: What are the tax rules?

If you own a home that is available for both personal and rental use, you have what is commonly known as a vacation home. Vacation homes are a hybrid: they are not purely rental properties, nor are they purely personal use properties. Since they are special, they have their own very specialized tax issues.

A vacation "home" could be a house, condo, motor home, boat, or similar property. In order to qualify, it must have a sleeping place, toilet, and cooking facilities.

If the home is rented for less than 15 days, you are not required to report the income. However, if you rent the home for 15 days or more, and you or family members use the home for personal use, you may have to allocate rental expenses.

The amount of personal use determines the classification of your home for tax purposes. If you rent your vacation home for more than 14 days, all your rental income is reportable. Whether you treat the income and expenses as a second residence or as rental property depends on the personal use of your vacation home relative to the time the home is rented out.

If you limit your personal use to not more than 14 days or 10% of the time the home is rented, all rental expenses are deductible.

If you use the property for more than 14 days or 10% of the number of days it's rented, the rules change. Your rental deductions (except for taxes and mortgage interest) are limited to the amount of your rental income.

The rules are complex, but a basic understanding of the rules and good recordkeeping will help you get the best tax breaks from your vacation home. Give us a call if you would like more information.

New Business

Take another look at your business form

Should your business be a proprietorship, corporation, partnership, or some other entity? Each form has advantages and disadvantages. Business situations change, and so do tax laws. This time of year may be a good time to review your business's current structure to be sure it is still your best choice.

In proprietorships and partnerships, income and losses are reported on your personal tax return, and earnings are subject to self-employment tax. You are generally personally liable for business liabilities.

With a corporate structure, your liability is generally limited to corporate assets and amounts you guarantee. Minuses? Income is taxed twice -- once at the corporate level and again when you receive dividends. Any salary you are paid is subject to employment taxes.

Small corporations can elect S corporation status. Generally, S corporations pay no federal income tax. The corporation's income or loss is reported on the shareholders' tax returns and is not subject to self-employment tax. However, if you are also an employee of the corporation, your wages are subject to employment taxes. An S corporation can provide you with limited liability. Another entity is the limited liability company (LLC), which offers the limited liability of a corporation and the tax treatment of a partnership. No one choice is best for every business.

It's important to regularly evaluate whether it's time for a change in your business form. Call us for guidance in your review.

Watch for hazards when buying a franchise

With a franchise, you don't have to start a company from scratch. Whether the business sells fast food, automotive services, gourmet coffee, or dry cleaning, successful franchises are usually based on a proven business idea and a recognized brand name. The best franchisors can jump start a business by providing staff training, location advice, and detailed operations manuals. And some have ongoing relationships with financial institutions, which can help when you're searching for start-up capital.

But buying into a franchise requires careful analysis and a healthy dose of skepticism. Before taking the plunge, watch for these hazards:

* Unrealistic forecasts. Sometimes predicted revenues do not materialize. That's because early entrants may have cornered the most profitable territories already. So be aware that rosy forecasts based on historical data do not always pan out. Get market research for the area you've staked out (preferably from several sources), and determine the least amount of revenue you'll need to cover costs and remain profitable.

* Unanticipated costs. In addition to an initial outlay for franchise rights, you'll incur numerous out-of-pocket costs. These might include advertising, inventory and supply expenses, additional fees for training staff, legal expenses, and so on. Generally, you'll also pay a continuing royalty on sales whether or not you make a profit. Failure to factor in these additional costs can sink a business before it gets started.

* Undependable franchisors. This is one area where research is vital. Contact other franchisees and ask about their experiences with the company. Have they been satisfied with the company's support, including training, the quality of goods delivered, and ongoing relationships? Take a hard look at the company's key management staff. How long have they been in business? What experience and education did they bring to the company? How many of their franchises have failed and why?

* Unproven business model. If you're considering a franchise that's not exactly a household word, use caution. Of course, jumping in during the initial stages of a fast-growing franchise can be especially lucrative. But there's no substitute for proven marketability. Often a great idea on paper needs to be tweaked (or overhauled) when a company enters the marketplace. Unless you can live with significant risk -- including the potential loss of your investment -- steer toward a franchise with a solid track record.

If franchises are on your mind, give us a call for help with your analysis.

What's New in Finances

Report foreign investments by June 30

If you have foreign bank, savings, or investment accounts, you are required to file "Treasury Department Form 90-22.1, Report of Foreign Bank and Financial Accounts (FBAR)," by June 30, 2012. The report is required if you have an interest in accounts in foreign countries and the aggregate value of those accounts exceeded $10,000 at any time last year.

This is not a form that you file with your income tax return. Rather it is a separate form filed with the Treasury Department in Detroit. The report must be received by the Treasury Department, not postmarked, by the June 30 due date. Penalties for failing to meet the FBAR requirements are severe and can include jail time. Contact our office for details or filing assistance.

Be cautious with e-mails if you don't want your identity stolen

The e-mail from your bank gets your attention right away. It says you need to log into your account in the next 48 hours to continue your online privileges. Something about a system upgrade. You wonder, is it legitimate? How can you know for sure?

Bogus e-mails designed to steal your identity, also known as phishing, are becoming a bigger problem these days. While they can take many different forms, most scams are designed to trick you into revealing personal information such as your social security number or online account password. Through clever use of logos and familiar-looking web addresses, these e-mails often appear to be an urgent message from your bank, mortgage lender, or e-mail provider.

You may not realize it, but thieves are especially eager to gain access to your web e-mail account. Why? Once a scammer has access to your e-mails, he or she can often figure out where you bank and detect clues to passwords you might use.

So what can you do to protect yourself? Take a moment and think before you click. Never respond to an e-mail asking for your social security number or birth date. You can almost bet that it is a scam. If an e-mail contains a website link that you are not familiar with, do not click on it. Instead, either go directly to the company's trusted website, or contact them by phone.

Also remember that e-mail scams become more prevalent following a significant public event, such as a natural disaster or sudden stock market drop. Thieves will prey on your sympathies or fears during these times, so be extra careful when responding to appeals for charity or notices to update your financial records. Be further leery of e-mails with demanding language or incorrect grammar -- both are potential signs of a counterfeit e-mail.

For preventive measures, try to use a different password for every online account, and change your passwords regularly. Make your passwords stronger by using combinations of letters, symbols, and numbers. Also, keep your computer anti-virus software up to date.

Finally, do your part to thwart these crimes by reporting any suspected scam e-mails to *reportphishing@antiphishing.org*. If you receive a bogus tax-related e-mail, forward it to the IRS at *phishing@irs.gov*. And of course, feel free to contact our firm if you need a second set of eyes on any suspicious-looking e-mail.

Take a Break

Some marriage numbers...

June is the traditional month for weddings. Here are some marriage statistics revealed by a recent government report:

* Based on interviews conducted from 2006 to 2010, 38% of women have never married.

* Nearly 50% of marriages break up within 20 years.

* Education affects the likelihood of divorce. 78% of women with at least a bachelor's degree were still married after 20 years, compared with 41% for those with a high school diploma. 65% of men with at least a bachelor's degree were still married after 20 years, compared with 47% for those with a high school diploma.

The information contained in this newsletter is of a general nature and should not be acted upon in your specific situation without further details and/or professional assistance. For more information on anything in the Online Advisor, or for assistance with any of your tax or business concerns, contact our office.

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