



## Online Advisor - March 2012

### Major Tax Deadlines For March 2012

March 1 - Farmers and fishermen who did not make 2011 estimated tax payments must file 2011 tax returns and pay taxes in full.

March 11 - Daylight Saving Time begins.

March 15 - 2011 calendar-year corporation income tax returns are due.

March 15 - Deadline for calendar-year corporations to elect S corporation status for 2012.

### For April 2012

April 2 - Deadline for payers who file electronically to file 2011 information returns (such as 1099s) with the IRS.

April 2 - Deadline for employers who file electronically to send copies of 2011 W-2s to the Social Security Administration.

**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

### Payroll tax cut extended through 2012

Congress passed an extension of the 2% payroll tax cut that had been scheduled to expire at the end of February. The extension means 160 million working Americans will continue to pay social security tax on their wages at a 4.2% rate for the rest of 2012, rather than at a 6.2% rate.

Because Republicans and Democrats were unable to agree on how to pay for the extended tax cut, the law included no spending cuts to offset the estimated \$93 billion cost of this provision.

The law also provides for long-term federal unemployment benefits, setting the maximum at 73 weeks in states with the worst unemployment and 63 weeks for other states.

Another provision in the law includes the so-called "doc fix" that prevents a scheduled 27% reduction in Medicare payments to doctors.

The unemployment benefits and doctor payments will be paid for by the government sales of broadband spectrum, requiring federal workers hired after this year to contribute more to their pensions, and cuts in certain health programs.

### Face the alternative minimum tax (AMT) head-on

The alternative minimum tax (AMT) -- often called a "stealth tax" -- snares unsuspecting or uninformed taxpayers each year. With a better understanding of the rules, you may be able to avoid or reduce adverse tax consequences.

**Overview:** The AMT is a separate tax system that runs parallel to the regular income tax system. This complex calculation includes additions for "tax preference items" and reductions for personal exemptions and certain tax deductions. There are five basic steps to computing the AMT.

1. Determine your taxable income for regular income tax purposes.
2. Make the technical AMT adjustments required by law.
3. Subtract a special "exemption amount" based on tax filing status (currently \$33,750 for single filers, \$45,000 for joint filers, and \$22,500 for marrieds filing separately). These exemption amounts are reduced for high-income taxpayers.
4. Apply the AMT rate to the result. The rate is 26% on the first \$175,000 of AMT income and 28% for amounts above \$175,000.
5. Compare your AMT liability to your regular tax liability. You pay whichever tax is greater. Best approach: Estimate your AMT exposure as part of your 2012 tax planning. Depending on your situation, it may make sense to avoid tax preference items or postpone certain deductions.



Caution: This is a complex area of the tax law, so contact our office if you need more information or planning guidance.

## **New Business**

### **More small business audits**

The IRS plans to conduct random audits of 2,500 returns from 2010 filed by corporations with less than \$250,000 in assets. The results will be used to update the IRS formulas for selecting returns for audit.

The IRS is also trying to improve tax compliance among sole proprietors. According to a Treasury report, sole proprietors accounted for 20% of the \$345 billion tax gap calculated for 2001 and about the same percent of the \$450 billion tax gap for 2006.

## **Watch out for scams when selling your business**

You've spent years developing your business, building its value, enhancing its reputation. Now you're ready to move on. You place a "Business for Sale" advertisement in the Internet classifieds, and the next day an eager -- overly eager -- buyer approaches you with a deal that seems too good to be true. The buyer offers full price and wants to structure the deal as a stock sale. A stock sale means the buyer will get the entire business, including all its assets (cash, checking accounts, receivables, inventory and so on) at closing. The buyer doesn't ask tough questions about the firm and seems in a hurry to close the sale. He or she offers a 10% down payment and says the full balance will be paid off within a year.

**Seller beware!** Business owners and regulators have found that scam artists use these types of transactions to strip value from companies, pulling out cash, and leaving the seller with a fistful of worthless stock. Within days of closing the sale, the buyer factors (sells) the receivables for cash, runs up company credit cards, sells off inventory, and empties cash accounts. The firm's creditors don't get paid. Your formerly prosperous business becomes an empty shell.

How can you avoid these types of scams when selling your business? Here are a few suggestions.

Perform an extensive background check on any potential buyer, including a review of the person's credit reports, litigation history, tax liens, and so forth. A skilled attorney can often help with this research.

Beware of sales that go too smoothly. Legitimate buyers will perform due diligence, asking tough questions, inspecting financial records, and calling customers and vendors. If the buyer wants to close the sale in a hurry and doesn't seem interested in the firm's ongoing prospects, beware!



## What's New in Finances

### IRS reopens program

To encourage taxpayers with offshore accounts to get current with their tax obligations, the IRS has reopened its "offshore voluntary disclosure program (OVDP)." Similar programs in 2009 and 2011 resulted in the collection of more than \$4.4 billion of taxes owed.

The 2012 program will be similar to the 2011 program; however, one difference is that there is currently no deadline by which taxpayers must apply.

### Diversify investments by putting a focus on taxes

Savvy investors often spread their risks by investing in a variety of asset classes such as stocks, bonds, commodities, and real estate. But with a changing tax landscape, investors might consider three more classes: taxable, tax-deferred, and tax-free.

In days gone by, taxpayers often worked under the assumption that their tax bracket would be lower after they retire. Therefore, a common strategy was to defer as much taxable income as possible to the golden years. Now, however, with the possibility of higher tax rates in the future, it could be more efficient to pay those taxes today while rates remain lower. Since no one knows for sure what Washington will do, it might be time to hedge your tax risk and allocate your portfolio between accounts with differing tax consequences.

- \* **Taxable accounts**, such as savings or brokerage accounts, result in current taxation on earnings, but they do provide maximum flexibility. You can withdraw as much as you wish whenever you wish, with no IRS penalties or taxes. Keeping some of your nest egg in this type of account will provide immediate funds for major purchases or debt reduction.
- \* **Tax-deferred accounts**, such as IRAs or 401(k)s, only postpone the payment of taxes; eventually you will have to pay Uncle Sam when you withdraw the funds. But in the meantime, you generally receive a current-year tax deduction when you contribute, and the account can grow tax-free until you take it out at retirement.
- \* **Tax-free accounts**, such as Roth IRAs, are funded with after-tax dollars. What you put in, including any investment earnings, can be later withdrawn tax-free. The downside? You generally must wait until after age 59½ (and the account has to be open for five years) to make a tax-free withdrawal.

Diversifying your portfolio is only the first step. The next (and trickiest) step is properly investing in each type. For instance, your goal for a taxable account might be to generate growth while keeping



taxable earnings to a minimum. This could be done by investing in tax-exempt municipal bonds or low-dividend yielding growth stocks.

In a tax-deferred account, investment income is not taxed until withdrawn, so earnings can come from any source without immediate tax implications. However, since you must start withdrawing funds from an IRA or 401(k) at age 70½, you might want to stay away from highly volatile investments as you approach that age. Your account will have less time to rebound from a down market.

Tax-free Roth IRAs offer the longest time horizon for investing since you are not required to make a withdrawal at any age. So investments with higher risks or lower liquidity might fit best here.

In an era of high uncertainty and low expectations, tax-efficient investing has never been more important. To review the tax implications of your investments, give our office a call today.

## **Take a Break**

### **Speaking of government bureaucracy...**

- \* Pythagorean Theorem: 24 words
- \* Lord's Prayer: 66 words
- \* Archimedes' Principle: 67 words
- \* Ten Commandments: 179 words
- \* Gettysburg Address: 286 words
- \* Declaration of Independence: 1,300 words
- \* U.S. Constitution with all 27 Amendments: 7,818 words
- \* U.S. Government regulations on sale of cabbage: 26,911 words

That says it all, doesn't it?

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