



Online Advisor - May 2012

Major Tax Deadlines For May 2012

* May 15 - Deadline for calendar-year exempt organizations to file 2011 information returns.

* May 31 - Deadline for IRA, SEP, SIMPLE, Roth IRA, MSA, and education savings account trustees to file annual statements (Form 5498) with the IRS, with copies to participants.

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:

Tax freedom on April 17

According to the Tax Foundation, April 17, 2012, was not only the day 2011 tax returns were due, it also was Tax Freedom Day for 2012. That means Americans worked 107 days, from January 1 to April 17 to earn enough money to pay their federal, state, and local taxes for 2012.

If the federal government collected enough taxes to meet 2012 federal spending, Tax Freedom Day would have come 27 days later -- on May 14, 2012. And unless Congress acts to prevent tax increases scheduled for 2013, next year's Tax Freedom Day will be eleven days later than in 2012, and the average American household will pay \$3,800 more in taxes.

Nine tips for better tax recordkeeping

Did pulling your records together to complete your 2011 tax return reveal shortcomings in your system? Here are nine tips that can improve your recordkeeping and help minimize your taxes.

1. Maintain a separate bank account for all self-employed business activity. This will greatly minimize confusion come tax time by giving you just one place to look for business transactions. The same is true for credit cards; have a card used solely for business and another for personal purchases.
2. Reconcile your bank statements. Though tedious, it is the only way to know for sure if you've included everything in your records.
3. Take advantage of technology. There are many software applications available for organizing tax records, and digitizing your records can also save office filing space.
4. Track your finances by important tax categories. Knowing how to classify your expenses and income is half the battle. Look at your last tax return or accountant's tax organizer for clues. Individuals should focus on itemized deductions and tax credit categories; business owners should look at Schedule C line items.
5. Be diligent and consistent. Make recordkeeping a year-round task, not a year-end burden. For instance, update business mileage records daily. File away receipts before they are lost. Record tax transactions as they occur throughout the year.



6. Watch for important receipts. You probably already know you should collect the standard items: W-2s, 1099s, and annual mortgage statements. But did you know that charitable donations of \$250 or more must be accompanied by a receipt from the charity to be deductible? Also, keep all pay stubs and brokerage statements. They might contain hidden deductions.

7. Hold on to prior-year tax records. Because an IRS audit is always a possibility, keep copies of tax returns and supporting records for seven years.

8. Be aware of special tax breaks. Some records become important as tax rules change. For instance, business owners should be careful to maintain records on major equipment purchases to qualify for enhanced expensing perks. Homeowners need to keep supporting documents for energy-efficient purchases.

9. Keep your tax advisor abreast of major life changes. New happenings in your life, like a job change, new child, or change in marital status might affect how you track your income and expenses. A quick call to your tax pro will help you stay on top of things.

For any assistance in getting your 2012 recordkeeping on track, give our office a call.

New Business:

IRS issues 2012 depreciation limits for business vehicles

The IRS has published depreciation limits for business vehicles first placed in service this year. Because 50% bonus depreciation is allowed only for new vehicles, these limits are different for new and used vehicles.

* For new business cars, the first-year limit is \$11,160; for used cars, it's \$3,160. After year one, the limits are the same for both new and used cars: \$5,100 in year two, \$3,050 in year three, and \$1,875 in all following years.

* The 2012 first-year depreciation limit for trucks and vans is \$11,360 for new vehicles and \$3,360 for used vehicles. Limits for both new and used vehicles in year two are \$5,300, in year three \$3,150, and in each succeeding year \$1,875.

For details relating to your 2012 business vehicle purchases, contact us.



Take steps to build a better business

Business owners focus a lot of attention on building better products. When their products are hot, the company does well, despite other shortcomings. Certainly, new and better products are essential, but focusing on building a better business -- one that readily adapts to change and quickly responds to crisis may be even more important. How can you build a better business? Consider the following strategies.

- * Manage capital needs. Growing businesses have an appetite for capital. Two ideas for managing capital are outsourcing some processes and managing existing capacity more effectively.
- * Identify the right product and customer mix. Having the products customers want at the time they want them and in the number, color, location, and quantity they need, is a challenge. Get continuous feedback from customers to help you get your mix just right.
- * Actively develop and maintain a network that keeps you in the mind of suppliers, present customers, and future customers.

Every business has an opportunity to distinguish itself by doing something better than its competitors. Providing the best service, shortest cycle time, most variety, or best quality requires procedures that can deliver every day to every customer. Improving your processes to deliver what no competitor is delivering to customers is a key strategy in building a better company.

- * Use your employees wisely. Encourage sharing of knowledge and skills. Continuously develop and train people. Measure individual performance and reward achievement and good ideas.

Building a better business requires more than a good product. Take the steps necessary to make sure your business will thrive in an ever-changing world.

What's New in Finances:

Prom has become a financial event

The spring teenage celebration known as "prom" is becoming a major financial event. According to a survey done by Visa, the amount families with teens are likely to spend on prom this year is \$1,078. That's an increase from last year's average spending on prom of \$807.



The spending on prom includes the clothing (dress or tuxedo), limo hired for the event, professional hair and makeup services, dinner, and, of course, the corsage or boutonniere.

Average costs differ in the various parts of the country. Families in the South expect to spend \$1,047; those in the Northeast expect to spend close to \$2,000; those in the West will spend \$744; and those in the Midwest will spend \$696.

Pay medical expenses with tax-free dollars

"FSA" stands for Flexible Spending Account. Many companies offer FSAs as part of their benefit package. And if you're eligible but not using one, you could be missing out on a way to reduce your health care costs.

An FSA lets you set aside pre-tax dollars from your paycheck to pay for health care costs that are not covered by regular health insurance. As well as paying for deductibles and co-pays, you can use your FSA dollars for a range of other health care expenses. These include such things as eyeglasses and dental work.

Dollars you put into your FSA don't count as taxable income, so you save the tax you would have paid on those earnings. Sometimes there's a secondary benefit. Because your income is lower, you might find yourself in a lower tax bracket or eligible for tax breaks that phase out at certain income levels.

FSAs have one drawback. It's called "use it or lose it." You'll forfeit any unspent money in your FSA at the end of each plan year. Some companies have a 12-month plan year, usually ending on December 31. Other plans allow you an extra 2½ months beyond year-end to spend the prior year's balance. With a little planning, you can use up your dollars without much problem.

If your company offers an FSA, it's worth looking into. Check with your benefit coordinator to see what items are covered and to find the plan limits. Starting in 2013, the amount that can be contributed to a health FSA is limited to \$2,500 per year (indexed annually for inflation).



Take a Break

Some tax facts...

* The Obama's 2011 tax return reported adjusted gross income of \$789,674. Their tax liability was \$162,074, giving them an effective tax rate of 20.5%.

* The average tax refund on returns filed for 2011 was \$2,983.

* For this tax filing season, the IRS had 5,000 fewer employees than it had a year ago.

* In 1995, 114,000 IRS employees processed 205 million tax returns. This year, 91,000 employees will process 236 million returns.

* The IRS must update its computers with each tax law change. Between 2000 and 2010, Congress made 4,428 changes to the tax code.

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