Cirimelli, Pyle & Associates LLP
Certified Public Accountants

Online Advisor - November 2012

Major Tax Deadlines
For November 2012

During November: It's wise to estimate your 2012 income tax liability and review your options for minimizing your 2012 taxes. Call us if you would like to schedule a tax-planning session.

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

Basis reporting requirement delayed

A law passed in 2008 requires brokers to report an investor's basis in stocks and mutual fund shares when these investments are sold. The final step in these new reporting requirements was to become effective for debt instruments and options on January 1, 2013.

The IRS has announced a delay in the effective date, moving it to January 1, 2014. This one-year delay is in response to complaints that the earlier deadline did not give brokers and other financial institutions time to build and test systems to handle the complicated basis reporting requirements.

Consider "bunching" deductions to cut your taxes

Getting the most benefit from tax deductions requires multi-year planning as well as consideration of the alternative minimum tax (AMT).

The multi-year part involves "bunching" your expenses. That's a strategy where you decide to accelerate or delay payments between different years for itemized deductions such as state income taxes, routine health care, and charitable contributions. You calculate the tax savings for each year and choose the most advantageous time to pay the expense and claim the deduction.

The AMT adds another step to the calculation because it eliminates certain deductions. For instance, state and local income taxes are not deductible when figuring AMT liability.

What if you usually claim the standard deduction? You'll still want to take a look at your total itemized deductions in case you're close enough to the tipping point to consider accelerating some expenses into 2012. In addition, there are circumstances where itemizing makes sense even when the total is lower than your standard deduction. Your exposure to the AMT can come into play here, too, since the standard deduction is not allowed in the AMT calculation.

For 2012, the regular standard deduction when you're married filing jointly is $11,900 ($5,950 for singles). The last few months of the year is a good time to review your situation and consider opportunities for bunching deductions. Planning could help you salvage itemized deductions that would otherwise be lost. Contact our office for more information about this tax-cutting strategy.

New Business

Check year-end tax moves

As a business owner, you know the price of inaction is missed opportunity. That's true in tax planning, too, which is why now is the time to take actions to save money on your 2012 federal income tax return. Here are some ideas to consider before year-end.

* **Draw up loan documents.** To preserve interest deductions, loans you make to your business should be documented, with an interest rate and maturity date specified. In addition, reference specific loans in your corporate minutes.

* **Establish a retirement plan.** Already have a retirement plan? Verify that you've provided employees with required annual notices. Keeping your plan compliant with the law keeps your deductions safe.

* **Put equipment to work.** To benefit from Section 179 and bonus depreciation expensing in 2012, assets you purchase must actually be placed in service -- that is, ready and available for use in your business by year-end.

* **Know your basis.** As a partner or a shareholder in an S corporation, your investment in your company is a factor in determining how much of a business loss you can deduct on your personal income tax return.

* **Pay health insurance premiums.** When you own 2% or more of your S corporation, premiums you pay personally for your health and long-term care insurance must be reimbursed to you in order to get the most benefit. When accounted for properly, premiums are included on your Form W-2 as wages, and are deductible on your individual income tax return whether you itemize or not.

We're here to help you turn tax-saving ideas into action. Call for more information.

Financial statements provide important business information

To accountants, the relationship of financial statements (balance sheet and income statement) is very specific. To the average business owner trying to read those statements, much of it is confusing at the very best.

One will get better, more useful information from the statements when the relationship between them is understood. Maybe this comparison will help you see the connection. The balance sheet (the listing of your assets and debts) is like a still photograph. The income statement is a moving picture. The balance sheet will state "as of" a date; the income statement will state "for the period ended." Look at this non-accounting example.

Example. On the last day of the month, we take a picture of you sitting in your office chair. Then, at the end of next month, the still photo shows you sitting across the room. This is the balance sheet (your position statement). We know for a fact that you have moved from position one to position two. What we don’t know is how you got there. Did you just walk straight across the room, or did you travel around the building or maybe even across town before stopping there? The income statement is the moving picture that gives us the details of how and where you traveled from position one to position two.

The numbers on the balance sheet can all be verified for a given date. You can reconcile the bank balance and verify the accounts receivable to the penny. You can confirm your liabilities with your creditors. When you subtract all the debt from the total assets, you get your equity. If your equity has increased $10,000 for the month, what did it take to produce it? Were sales $30,000 and expenses $20,000, leaving $10,000 profit? Or were sales $100,000 with expenses of $90,000? This story is told in the income statement.

By comparing the income statements for several periods and analyzing the various income and expense accounts, you can determine if and where changes need to be made. The more you know about why your company makes or loses money, the better armed you are to make changes. If you would like assistance in using your financial statements or other business reports, give us a call.

What's New in Finances

RMD deadline approaching

Reminder: Required minimum distributions (RMDs) must be taken by December 31.

RMDs are mandatory withdrawals from certain retirement accounts, generally after you reach age 70½.

You must take a withdrawal by December 31 if the rules apply to you -- and there's a hefty penalty for procrastinating. Missing the deadline could cost you 50% of the amount you were required to withdraw.

How much do you have to take out of your retirement account? That depends on the balance in your account (or accounts) on December 31, 2011, and your age on your birthday in 2012. Your spouse's age can also affect how much you're required to withdraw in situations when your spouse is the sole beneficiary of the account and is more than ten years younger than you are.

You can always withdraw more than the required amount. Just remember each year's RMD stands on its own, and any excess you take this year has no effect on your 2013 RMD.

One other RMD quirk: If you're thinking of converting to a Roth by the end of December, you'll need to take your RMD from your retirement account first.

Call now to make sure you're in compliance with the RMD rules. We're here to help.

What are the pros and cons of dollar cost averaging?

Experienced investors don't need to be convinced about the inherent volatility of the stock market. Prices seem to soar and plummet regularly. One possible investment strategy for smoothing out the inevitable ups and downs is called "dollar cost averaging." But this long-standing investment method has as many detractors as proponents.

The basic concept is relatively simple. Essentially, you invest a fixed amount of money in shares of the same stock at regular intervals -- usually, on a monthly basis -- regardless of the stock's performance. (The same principle can be applied to investments in mutual funds.) And you continue to invest the same way for an extended period of time.

As a result, you may be able to acquire shares of the stock at a lower cost per share than the prevailing price, providing some volatility protection. This strategy removes the guesswork of trying to "time" the market.

For example, let's say you decide to invest $100 monthly in Technology Inc. stock. If the stock sells at $20 a share in the first month, you'll receive five shares. Now assume that the price of the stock drops to $10 a share, so you acquire ten shares in the second month. In the third month, the price of the stock rebounds to $25 a share, giving you four shares.

After three months, you've acquired 19 shares of Technology Inc. stock for $300. Your "average cost per share" is $15.79 ($300 divided by 19). But the stock's average price per share during the same time was $18.33 ($20 + $10 + $25 divided by 3). This averaging effect makes the per-share cost of your investment lower than the average market price per share for the same time period.

On the other hand, there's no guarantee that dollar cost averaging will work. It doesn't eliminate the risk of a loss in a declining market or that the average cost per share will move slowly. In fact, if you choose a stock that continues to slide downward, your paper losses could pile up.

Dollar cost averaging requires dedication. Advocates say you must stick with this approach in both good times and bad. That means you can't stop investing if the market goes into a tailspin. Yet there may come a time when you figure you have to cut your losses.

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Dollar-cost averaging is a disciplined investment strategy, but it doesn't eliminate the need to review your investments periodically to make sure that they still meet your expectations and your risk tolerance.

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