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Online Advisor - October 2012

Major Tax Deadlines
For October 2012

* October 1 - Generally, the deadline for self-employeds and small businesses to establish a SIMPLE retirement plan for 2012.

* October 15 - Deadline for filing 2011 individual tax returns on automatic extension of the April 17 filing deadline.

* October 15 - If you converted a regular IRA to a Roth IRA in 2011 and now want to switch back to a regular IRA, you have until October 15, 2012, to do so without penalty.

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.

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What's New in Taxes

Who pays "enough" in taxes?

A recent poll by the Pew Research Center revealed that 58% of those surveyed felt the rich don't pay enough in taxes. 26% said the rich pay their fair share, and 8% said the rich pay too much.

According to the Tax Policy Center, a nonpartisan group that studies tax issues, the wealthy do, in fact, pay a significant portion of taxes collected. Households earning over $1 million a year total 0.3% of all taxpayers; yet they pay 20% of all federal taxes (income, payroll, and estate taxes). Households earning $50,000 to $75,000 a year, a group totaling 12% of taxpayers, pay 9% of federal taxes. About 46% of households pay no federal income tax though they do pay payroll and other taxes.

Know the tax difference between alimony and child support

Divorce is a sad experience for all concerned. The last thing you want to think about is taxes, but tax issues are important. If you fail to negotiate your divorce settlement with taxes in mind, you may regret it for years to come. One important tax issue is whether you call support payments alimony or child support.

* **Alimony is taxable; child support is not.** Alimony or separate maintenance payments are payments made by one spouse to help support the other. Generally, alimony payments are deductible by the person paying them, and they are taxable income to the person receiving them. Child support payments, on the other hand, are neither deductible by the payer nor income to the recipient. So what's best tax-wise depends on whether you are the payer or the recipient of the payments.

* **Negotiate with taxes in mind.** Alimony can sometimes lead to combined tax savings. If the spouse making the payments is in a higher tax bracket than the recipient, the value of the tax deduction will be greater than the taxes owed. Both parties may be able to share the benefit if the value of this tax saving is anticipated when payments are negotiated.

* **Avoid this tax trap.** Beware of trying to disguise child support or property transfers as alimony just to gain the tax deduction. The IRS can disallow the tax deduction in such cases.

Call us if you would like tax planning assistance during your divorce process. We can work with your attorney to help you make informed choices that take taxes into account.

New Business

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Employers try to manage rising health costs

A survey of 440 midsize and large businesses conducted by Towers Watson says the cost of health care will likely increase 5.9% in 2012. Next year the increase will be somewhat lower at 5.3%.

With such large increases for employee health benefits, companies are looking for ways to cut costs, including increasing the percentage of premiums employees pay and reducing spouse and dependent coverage.

Other cost-control changes employers plan for 2013 include adopting health plans such as health savings accounts and health reimbursement accounts and offering telemedicine consultations.

The survey showed that 88% of companies plan to continue offering health care benefits, considering it necessary to attract and retain the best employees.

Develop an early-warning system for problem accounts

If you extend credit to your customers, some losses are inevitable. So unless you are willing to forgo the credit part of your sales, you have to figure out ways to control your bad debt losses.

Once you have extended credit to a customer, you have a stake in continuing the relationship even if you suspect there might be trouble a-brewing. You don't want to crack down on a good customer too hard too soon; yet you don't want to be "taken" by a debtor who has become unable or unwilling to pay. The problem is distinguishing between slow pay (which is bad enough) and no pay.

What you need is an early-warning system to detect a credit problem in the making, so you can stop additional sales to that customer and begin collection procedures in earnest. Here are some of the tell-tale signs that point to an account that is turning sour.

* The debtor has begun paying erratically, settling up on smaller invoices while larger ones just get older, at the same time disputing specifications or terms.

* The debtor fails to return your phone calls or shows unusual annoyance at your inquiries.

* Your requests for information, such as updated financial statements, are ignored.

* The debtor places jumbo orders and presses you for a higher credit limit.

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* Despite the problems you are having, the debtor tries to coax you into providing a good credit report to another supplier.

* You get word that the debtor's credit rating has been downgraded.

Any one of these hints of trouble can be the handwriting on the wall. Two or more and it's time to crack down. Take a firm stand; turn up the heat on your collection efforts with this debtor, and make no more sales unless they're cash on delivery.

What's New in Finances

Take credit to help pay college costs

From 2008 to 2010, the average tuition at four-year public universities rose 15%, and in 2011 total student loans topped $1 trillion. Those statistics are no surprise to parents and students trying to pay for a college education.

The IRS recently issued a reminder that the tax law offers some education tax benefits that can help offset some college costs for students and parents.

The education credits include the American Opportunity Credit and the Lifetime Learning Credit.

The American Opportunity Credit can be up to $2,500 per eligible student and is available for the first four years of study at an eligible institution. Up to 40% of the credit is refundable. For 2012, the credit begins to be phased out once adjusted gross income reaches $80,000 for singles and $160,000 for couples.

The maximum Lifetime Learning Credit is $2,000, and there is no limit on the number of years you can claim the credit for an eligible student. The income phase-out for this credit begins at $52,000 for singles and $104,000 for couples.

Only one type of credit per student can be claimed in the same year. However, if you pay college expenses for more than one student in the same year, you can choose to take credits on a per-student, per-year basis. You can, for example, take the American Opportunity Credit for one student and the Lifetime Learning Credit for the other student.

The IRS reminder also mentions the tax deduction available for student loan interest of up to $2,500.

Insuring your teen driver: How to control the cost

Your child is approaching 16 years old and for the past several years, he or she has reminded you (daily, it seems) of this inevitability. You, on the other hand, have been trying to expunge the thought that a teenager -- a teenager! -- will soon be driving one of your vehicles.

Of course, there's at least one good reason for putting this thought out of your mind: the near certainty that your insurance premiums will spike upward when your son or daughter starts driving. Insurance companies can marshal an impressive array of statistics showing that the younger the driver, the greater the risk. In fact, teen drivers account for almost 13% of fatal accidents and the crash rate for 16-year-old drivers is nearly three times as high as for 19-year-olds. From an insurance company's perspective, insuring a teenager increases the risk of having to pay claims. To compensate for this higher risk, insurers charge higher premiums -- sometimes 50% to 200% higher.

When it's time to insure your teen driver, here are five ideas for keeping car insurance premiums under control:

* **Add the new driver to your policy.** Unless your driving record isn't stellar or all your cars are new and expensive, it's generally cheaper to add a son or daughter to an existing policy.

* **Assign the cheapest car to the teen.** By linking the teen driver to your least expensive car, the insurer's risk is mitigated, which should result in lower premiums. Just make sure your son or daughter uses the assigned vehicle exclusively.

* **Require good grades.** Many insurers provide discounts for students who maintain a B average or better, a policy some parents have leveraged to good effect: keep your grades up or the car stays in the garage.

* **Opt for a higher deductible.** The higher the deductible, the more you pay out of pocket if there's an accident. If you have the financial wherewithal to cover the cost of fender benders, your premiums can be lowered by as much as 35% by, say, increasing your deductible from $500 to $2,000.

* **Keep adequate liability coverage.** Some people try to lower premiums by decreasing liability coverage. Bad idea. Remember, teen drivers are high risk. They're more likely than adults to involve other drivers in accidents. Without sufficient liability coverage, you could end up pulling money out of retirement savings to cover another driver's hospital bills.

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.