



Online Advisor - February 2013

Major Tax Deadlines For February 2013

- * February 15 - Deadline for brokers to provide 2012 Forms 1099-B and 1099-S to customers.
- * February 28 - Payers must file 2012 information returns (such as 1099s) with the IRS. (Electronic filers have until April 1 to file.)
- * February 28 - Employers must send 2012 W-2 copies to the Social Security Administration. (Electronic filers have until April 1 to file.)

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

IRS delays start to the 1040 filing season

The delayed passage of the "American Taxpayers Relief Act of 2012" has put the IRS behind schedule. Due to several provisions of the law affecting 2012 tax returns, the IRS could not open the Form 1040 filing season for the majority of taxpayers until late January.

Those taxpayers filing Form 5695 (Energy Credit), Form 4562 (Depreciation), and Form 3800 (General Business Credit) will not be able to file until late February or possibly not until March. Apparently a large percentage of taxpayers in this group typically file later in the season because they have more complex returns.

The IRS must complete the updating of forms and computer programming and testing before it is ready to accept any filings either on paper or electronically. The IRS said that taxpayers will receive refunds faster by e-filing and using direct deposit.

If we can be of assistance to you in preparing any of your 2012 tax filings, please contact us.

Inflation changes several tax numbers for 2013

The IRS and the Social Security Administration have published some inflation-adjusted numbers for 2013. Use these numbers as you begin your tax and financial planning this year.

* The social security taxable wage limit for 2013 will be \$113,700. Retirees under full retirement age can earn up to \$15,120 without losing benefits.

* The threshold for unearned income a child can earn in 2013 without having the kiddie tax apply is \$2,000.

* The amount that can be given this year (per recipient) without paying gift tax is \$14,000 (\$28,000 for joint gifts).

* The amount that can be set aside in a health savings account is limited to \$3,250 for individuals and \$6,450 for families. Those 55 or older can contribute an additional \$1,000.

* The maximum salary deferral for a 401(k) increases in 2013 to \$17,500. The catch-up limit for those 50 or older remains unchanged at \$5,500.



- * The maximum IRA contribution limit increases to \$5,500; the limit for those 50 or older is \$6,500.
- * The maximum salary deferral for SIMPLEs increases in 2013 to \$12,000. The catch-up limit for those 50 or older remains unchanged at \$2,500.
- * The standard mileage rate for business driving increases to 56.5¢ a mile. The rate for medical and moving mileage increases to 24¢ a mile, and the rate for charitable driving remains at 14¢ a mile.
- * The nanny tax threshold remains at \$1,800.
- * The alternative minimum tax exemption amount for 2013 is \$51,900 for singles and \$80,800 for couples filing a joint return.
- * The amount exempt from estate tax for deaths occurring in 2013 is \$5,250,000.
- * The personal exemption for 2013 is \$3,900. This year the exemption phases out for those with adjusted gross income over \$250,000 (single) and \$300,000 (couples).
- * The standard deduction for 2013 is increased to \$6,100 for singles, \$8,950 for heads of household, and \$12,200 for couples filing joint returns.

Contact our office if you have questions or wish to discuss early 2013 tax planning.

New Business

Delayed tax filing affects farmers and fishermen

If your business is farming or fishing, you have until April 15, instead of March 1, to file your 2012 tax return and pay any tax due for 2012.

Farmers and fishermen normally must file and pay by March 1 if they didn't make quarterly estimated tax payments during the previous year. Because a new tax law was signed on January 2, 2013, the IRS is still reprogramming and testing its computers to handle the rule changes. The agency has delayed the start date for processing tax returns using certain forms, several of which are generally used by farmers and fishermen.



Farmers and fishermen who file and pay by April 15, 2013, will not be subject to penalties for missing the March 1 deadline. To qualify as a farmer or fisherman, at least two-thirds of the taxpayer's total income must have come from farming or fishing in either 2012 or 2011. The relief applies to all farmers and fishermen, whether their return includes the late-released forms or not.

How to improve annual performance reviews of your employees

The annual employee performance review -- usually it's dreaded by both supervisor and employee. The employee knows he'll have to hear about those mistakes from months ago, and the supervisor will finally have to discuss those issues he's been avoiding all year. Too often, the result is discomfort and embarrassment all round. Usually both parties fudge a little and are glad that it's over for another year. Too bad, because another chance for open communication and feedback has been lost.

Increase the frequency. To improve the process, consider holding performance appraisals more frequently, perhaps even quarterly. This can help make the appraisal less of a "special event" and more of a routine exchange of information. It also means your feedback is more directly related to your employee's recent performance, rather than coming months later.

Of course, even quarterly appraisals don't substitute for immediate feedback. If an employee does something wrong, or something good, tell him or her immediately. Point out the problem, make sure the employee acknowledges it, and make clear what you expect in the future. And if it's something good, the employee will appreciate receiving a pat on the back. With immediate feedback, there should never be any surprises at an appraisal.

Some other tips to improve the process. At the end of every appraisal, summarize the discussion and put the highlights in writing. Make sure your employee gets a copy. Before the next appraisal, ask your employee to review the copy and prepare his thoughts on his most recent performance. Ask him to present his opinions to start the discussion. If there are areas needing improvement, agree on an action plan and put that in writing too. And that might be a two-way street. It could involve you providing training or taking actions to support the employee, so make sure you're living up to the agreement.

Finally, don't limit the appraisal to a scorecard on the employee's achievements. If appropriate, use it to discuss career planning, cross-training, or job enrichment. Solicit ideas from the employee. It can all help turn a judgmental meeting into a constructive exchange of ideas.



What's New in Finances

"Chained CPI" -- Do you know what it is?

As the politicians in Washington start once again to tackle the same old problems, you're likely to hear more about a new way of measuring inflation called the "chained CPI."

The standard way to measure inflation has been with the consumer price index. It has been used to calculate annual adjustments to social security benefits, federal pensions, military and veterans' benefits, tax brackets, exemptions, deductions, and credits. According to some experts, the consumer price index currently used overstates increases in the cost of living.

So how is the "chained CPI" different? It makes different assumptions about how people spend. An oversimplified example: If a severe freeze drives up the cost of oranges and orange juice by 20%, people are likely to switch to a cheaper alternative, say, apples and apple juice instead of continuing to pay the higher price for oranges. This keeps spending more level than the regular consumer price index would indicate.

A switch to the chained CPI would mean that those government payments linked to inflation would rise more slowly. Applied to the tax code, the chained CPI would mean smaller inflation adjustments to tax brackets and other tax numbers, resulting in higher taxes over time.

Want to help your child buy a home?

Are you looking for a way to help your child with buying a home? Some strategies you might consider include lending your child money, gifting under the annual gift tax exclusion, pledging securities, and equity sharing.

Assuming you have enough liquid assets, you can effectively act as the mortgage lender to your child by lending money to pay for the house.

Another option is to give the child money for a down payment on a house. Making a gift to your child for the down payment is an ideal situation for parents who are primarily concerned with decreasing the size of their estate and the taxes on it after their death. Current tax law lets individuals make annual gifts of up to \$14,000 per person. If both parents join in the gift, they can give the child \$28,000 without any gift tax liability.



With some planning, even larger gifts can be made. For instance, if the child is married, his or her spouse is also eligible to receive gifts. Collectively, a married couple could receive \$56,000 in gift-tax-free cash for a home purchase. If the gift is spread over a new year, it can be increased to double the amount, giving the child and his or her spouse \$112,000 toward the cost of the home.

Another possibility is pledging securities to secure a child's home loan at a financial institution. By pledging securities instead of selling them, the parents can be saved from a potentially taxable event.

Finally, another alternative is equity sharing where the ownership of the home is shared. Typically, the parent makes the down payment, and the child pays the mortgage payment, utilities, taxes, and other ongoing expenses. The home is jointly owned, and the family can agree on a split of any appreciation in value if the home is later sold.

For details on these and other options available to parents who want to help their child buy a home, give us a call.

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