Cirimelli, Pyle & Associates LLP
Certified Public Accountants

Online Advisor - January 2013

Major Tax Deadlines
For January 2013

* January 15 - Final 2012 individual estimated tax payment is due, unless 2012 tax return is filed and taxes are paid in full by January 31, 2013.

* January 31 - Employers must provide 2012 W-2 statements to employees.

* January 31 - Payers must provide 2012 Form 1099s to payees. (Brokers have until February 15 to provide Form 1099-B and consolidated statements to customers.)

* January 31 - Employers must generally file Form 941 for the fourth quarter of 2012 and pay any tax due.

* January 31 - Employers must generally file 2012 federal unemployment tax returns and pay any tax due.

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

Health care reform provisions go into effect

Several provisions in the 2010 health care reform legislation go into effect this year. Here are some of the tax provisions that may affect you.

*** FSA limits**
The amount that can be contributed to a health flexible spending account (FSA) is limited to $2,500 per year, indexed annually for inflation.

*** Medical expense deduction**
The 7.5% income threshold for deducting unreimbursed medical expenses increases to 10% for those under age 65. Those 65 and older may continue to take an itemized deduction for medical expenses exceeding 7.5% of adjusted gross income through the year 2016.

*** Medicare tax increase**
The payroll Medicare tax will increase from 1.45% of wages to 2.35% on amounts above $200,000 earned by individuals and above $250,000 earned by married couples filing joint returns. The income threshold levels are not indexed for inflation.

A new 3.8% Medicare tax will be imposed on unearned income for single taxpayers with income over $200,000 and married couples with income over $250,000. Examples of unearned income: interest, dividends, royalties, rental income.

Use adjusted tax numbers in your 2013 planning

Each year the IRS adjusts certain tax numbers for inflation and tax law changes. Here are some of the adjusted numbers you'll need for your 2013 tax planning.

* STANDARD MILEAGE RATE for business driving increases to 56.5¢ a mile. Rate for medical and moving mileage increases to 24¢ a mile. Rate for charitable driving remains at 14¢ a mile.

* SOCIAL SECURITY taxable wage limit increases to $113,700. Retirees under full retirement age can earn up to $15,120 without losing benefits.

* KIDDIE TAX threshold increases to $2,000. The tax applies up to age 19 (up to age 24 for full-time students).

* NANNY TAX threshold remains at $1,800.

* HSA CONTRIBUTION limit increases to $3,250 for individuals and to $6,450 for families. An additional $1,000 may be contributed by those 55 or older.

* 401(k) maximum salary deferral increases to $17,500 ($23,000 for 50 and older).

* SIMPLE maximum salary deferral increases to $12,000 ($14,500 for 50 and older).

* IRA contribution limit increases to $5,500 ($6,500 for 50 and older).

* ANNUAL GIFT TAX EXCLUSION increases to $14,000.

New Business

Is your business ignoring the health care tax credit?

Many small businesses are still missing out on the health care tax credit. Less than half of the small businesses that qualify are taking advantage of the tax credit provided for under the "Patient Protection and Affordable Care Act of 2010." Any small business may qualify for a tax credit if it pays at least 50% of its employees' health care premiums at the single rate.

To qualify, the business must employ fewer than 25 employees (special treatment for less than full-time employees), with average annual wages of less than $50,000. The maximum credit is available to those businesses with 10 or fewer employees making an average of $25,000 or less. The credit decreases as the number of employees approaches 25 and the average wage approaches $50,000.

The maximum credit for tax years 2010 through 2013 is 35% of the premiums paid. For 2014 the credit increases to 50%. A reduced percentage is available to qualifying nonprofit organizations.

If you have failed to take the credit in prior years, you can still file an amended tax return and claim the credit for any of those prior years.

Does your business have this vital document?

Every business should give serious consideration to how the company would deal with the death, disability, or departure of one of the owners.

Like a will, a buy/sell agreement (also known as a business continuity contract) spells out how assets and other business interests will be distributed should an owner quit, become disabled, or die.

Without such an agreement, complications arising from ownership succession may capsize an otherwise thriving company. The remaining owners might be forced to share management and profits with unskilled or contentious outsiders. They may be embroiled in legal disputes over business assets and liabilities. A firm's internal squabbles may spill over to customer service, resulting in lost sales. If the firm's ownership seems doubtful or its future uncertain, creditors might accelerate collection efforts, bringing unwanted pressure on company resources.

The possible death of an owner isn't the only reason to prepare a buy/sell agreement. Sometimes an owner voluntarily decides to leave a company. He or she may want to pursue another business opportunity, a change of climate, a different professional relationship, or a well-earned retirement. By providing a mechanism for assessing a firm's value and ensuring that all parties are treated equitably, a carefully crafted buy/sell agreement will facilitate that kind of transition as well.

At a minimum, a buy/sell agreement should cover the following:

* **Triggering events.** What happens if an owner dies, becomes disabled, or leaves the company? What happens if he or she files for divorce or is caught skimming profits? The buy/sell agreement should spell out the company's response to such events, including how assets will be transferred, stock ownership controlled, and voting rights secured by the remaining owners.

* **Valuation.** The agreement should lay out how the business will be valued should a triggering event occur. For example, it might include a specific price for an owner's interest or specify a formula for determining the company's value. It might even name a specific firm to conduct the valuation. If the triggering event is the death of an owner, the buy/sell agreement might also guarantee a specific lump sum to be paid to the deceased owner's estate.

* **Buyout method.** If one owner leaves the firm, becomes disabled, or dies, the buy/sell agreement should contain provisions specifying how remaining owners will buy out the interest of that partner. (In many cases, owners use life or disability insurance proceeds to fund a buyout.)

To ensure that the buy/sell agreement remains relevant and up to date, owners should review it periodically and revise it as needed. If you need help preparing or reviewing a buy/sell agreement for your company, contact us and your attorney.

What's New in Finances

Take action now to have a scam-free 2013

Scam artists are constantly finding new ways to steal your identity and take your money. Here are five steps you can take this year to make their job more difficult.

* **Protect your computer.** Internet scams are the fastest growing type of fraud. Start your protection by installing software to guard against viruses, spyware, and other malicious bugs. These can be used to steal your personal data or direct you to bogus websites. Remember to update your protection regularly.

* **Clean out your wallet or purse.** Make sure you're not carrying PIN numbers for debit or credit cards written on a scrap of paper. If you do, anyone stealing your wallet will have open access to your accounts. Sign all your cards. Don't carry your social security card with you.

* **Delete all spam e-mails immediately**, preferably without opening them. Never click on an attachment or follow a link to a Web page unless you know the sender. List your telephone number on the national "do not call" list. If a telephone solicitor calls, ask to be put on their "do not call" list and then hang up.

* **Obtain a free copy of your credit report.** Go to www.annualcreditreport.com and order a free copy of your credit report from at least one of the three major agencies. Review it for mistakes, accounts you don't recognize, or strange credit inquiries. If you find something wrong, report it immediately.

* **Don't become a phishing victim.** "Phishing" refers to bogus e-mails or telephone calls that trick you into disclosing personal or financial information. It may be an e-mail claiming to be from your bank, a retailer, or a government agency. They may ask you to update account information. Or it could be a call from someone claiming to be a bank security officer, who wants to confirm your PIN. Never reveal personal data on the Internet or the phone unless you've initiated the contact and you know who you're dealing with.

By following these and other important steps, you can greatly decrease the risk of becoming a victim of a scam or crime in 2013.

Don't overlook tax planning in a divorce

Tax rules are daunting at the best of times – and they're more so at the worst of times, such as during a divorce, when you may feel too stressed to face decisions involving your taxes. Yet the choices you make will affect your future, both financially and personally. Here's where to start.

*** Filing status**

For tax purposes, the timing of your divorce matters. The date of your final decree determines your filing status, which in turn has an impact on what you'll owe.

Will your divorce be final by the last day of your tax year (generally December 31)? If so, you'll file your income tax return as single or head of household. You can also use one of those filing statuses if you were legally separated according to the laws of your state by the end of your tax year.

If your divorce is closed after the end of your tax year, you're considered married for that year. In that case, you'll choose between married filing jointly and married filing separately. Head of household status may be available in certain situations.

Tip: Remember to adjust the income tax withholding statements you have on file with your employer.

*** Exemptions**

When you prepare your federal income tax return for 2012, you can deduct $3,800 for each qualified child or relative that you claim. In addition, you get the benefit of other credits and deductions related to your dependent, such as the child tax credit.

The general rule: You're the custodial parent if you're the one your child lives with for the majority of the year. You can release your claim to the exemption by filing a form with your return. The release will also allow your former spouse to claim the child tax credit.

Tip: Consider adjusted gross income and your exposure to the alternative minimum tax when discussing who will get dependency exemptions.

*** Asset transfers**

In general, ex-spouses can make a tax-free transfer of assets within a year of the divorce. "Tax-free" means the initial transfer is considered a gift, so you'll want to make sure you're fully informed about the basis of assets you receive. Why? Because you get the same basis and holding period your ex-spouse had before the transfer. That will be important when you sell the assets later.

Another caveat: Some types of property, such as retirement plans, have extra rules to be aware of. For example, to remain tax-free, a transfer from your traditional IRA to your spouse must be mentioned in your divorce decree, and should take place post-divorce, via a direct transfer to the new account.

Splitting assets in your 401(k) or other qualified retirement plan requires a "qualified domestic relations order," a document you must get from the court.

These are just a few of the taxing aspects of divorce. Contact us for planning and advice specific to your situation.