

NEAL REITZ

& COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

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The Bush tax cuts will remain in effect through 2012 and income tax rates will not increase next year. Tax year 2013 and beyond can be categorized as the "unknown" and much will depend on the 2012 Presidential Election. As it stands right now, the reduced tax rates will disappear in 2013 and the top tax bracket will go back up to 39.6%. However, we believe that a post election Congress will extend the Bush Tax Cuts through 2013. The Medicare surcharge for payroll taxes and unearned income is scheduled to begin in 2013 (see our section titled 'Medicare Surcharge' for more details). As you look at your financial situation for 2011 and 2012 (and 2013) consider the following tax costs/benefits which will continue through 2012:

Tax Update

- **Qualified dividends and long-term capital gains:** Favorable rates will continue at 15% for 2012 (0% for those in the lower brackets).
- **The 2012 standard deduction** for married filers will cap at \$11,900, while single filers will be entitled to \$5,950.
- **The 2012 mileage rates are as follows:** medical and moving-23 cents, business-55.5 cents, and charity-14 cents.
- **Wage limits:** The FICA wage limit for 2012 is \$110,100 (once your taxable W-2 earnings hit \$110,100 social security tax will no longer be due); The California SDI wage limit will be \$95,585 and thus the maximum SDI will be \$955.85.
- **Payroll tax holiday:** The Temporary Payroll Tax Cut Continuation Act of 2011 will keep the 2% employee payroll tax cut alive through February 2012. After February the employee's FICA rate will increase to 6.2% however we believe that Congress will work out another deal to extend the payroll tax holiday through the end of 2012.
- **2012 HSA contribution limits:** the limit for singles will be \$3,100 and \$6,250 for a family plan. The additional \$1,000 "catch-up" contribution for those 55+ years old remains in place.
- **Regular and Roth IRA contribution limits** will not change and the maximum will continue at \$5,000 with a \$1,000 "catch-up" contribution for those 50+ years old.
- **The maximum 401(k), 403(b), and 457 plan contributions** will increase to \$17,000 with a \$5,500 "catch-up" contribution for those 50+ years old.
- **Profit sharing and SEP contributions** will max out at \$50,000 for 2012.
- **The child tax credit will continue for 2012** and eligible individuals will be entitled to \$1,000 for each qualifying dependent child under the age of 17. The credit phases out for single filers with an AGI of \$75,000 and married filers with an AGI of \$110,000.
- **Education credits will be extended for one more year into 2012:** The American Opportunity Tax Credit offers a \$2,500 credit for eligible educational expenses for single filers with an AGI under \$90,000 and married filers with an AGI under \$180,000. The lifetime learning credit phases out at a lower AGI but is available without a restriction on the intensity of the enrollment or the type of program. The max credit amount is \$2,000.
- **The non-business energy credit** offers a credit on 10% of the cost of energy efficient improvements such as "green" windows, furnaces, and fans; the max is \$500 and includes all credit amounts taken in prior years. This credit applies to principal residences only.
- **The residential energy efficient property credit** will be available through 2016 and offers a credit of 30% of the cost of installing qualified solar water heating property, qualified solar electric property, geothermal heat pumps, and small wind energy property. Costs associated with heating a pool or Jacuzzi are not includable in the credit calculation. This credit applies to principal residences and second homes.
- **The new 1099-K Form:** a new IRS code section has been added which requires all businesses that process credit cards and electronic payments to send Form 1099-K to sellers with more than: (1) 200 transactions, AND (2) \$20,000 in gross receipts paid to them. If your business uses PayPal or eBay be aware that you may be receiving a 1099-K for 2011 and future years.
- **The IRS is escalating compliance** on all tax returns and forms especially targeting 1099 filers (and non-filers). See our section titled 'Watch Out, Increased IRS and FTB Compliance Penalties Are On The Way!' for more detailed information.



Newsletter Spotlight

- Tax Updates
- Year-End Planning
- IRS- Penalties
- Medicare Surcharge
- Market Watch
- Neal's Nook

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(Continued) Tax Update...

- **Bonus depreciation** will drop down to 50% after 12/31/2011. Section 179 depreciation will drop down to a maximum of \$139,000 in 2012 with a phase out beginning at \$560,000 of assets purchased.
- **Making a million dollars or more?** California requires taxpayers with an AGI of \$1 million or more to pay in 90% of the current year's tax in order to avoid penalties. There is no CA safe harbor for these taxpayers.
- **Statement of Information Filing:** The Secretary of State is no longer sending reminder notices regarding the annual Statement of Information which must be filed on an annual basis for corporations and every two years for LLC's. The Statement of Information is due during the same month each time: the month of incorporation or formation. We highly recommend filing the form and paying the filing fee online: <https://businessfilings.sos.ca.gov>. Forms that are mailed have been known to sit in the mail pile for months often times not being opened until after the due date and incurring late penalties.
- **FBAR Filing:** A U.S. person who has a financial interest in or signature authority over foreign financial accounts must file Form TD 90-22.1 (Report of Foreign Bank and Financial Accounts (FBAR)) if the aggregate value of the foreign financial accounts exceeds \$10,000 at any time during the calendar year. Penalties are very stiff, so be sure to contact us if this situation applies to you.
- **Wondering when you will receive your refund?** Visit our website at www.nealreitzcpas.com and view the 2012 IRS e-file Refund Cycle Chart located under "Client Resources".

Year-End Tax Planning

The key to year-end tax planning is simple: look at your tax situation for 2011 and 2012 and make year-end decisions that decrease your tax for both years. The majority of filers save on taxes by accelerating 2012 write-off's into 2011 and deferring income into 2012. If you anticipate being in a higher tax bracket in 2012, consider doing the opposite.

- **If you are one of the millions in alternative minimum tax (and even if you are not in AMT) consider the following year-end planning tips:**
 - Charitable Donations:** You can accelerate contributions planned for 2012 into 2011, but you must charge them or mail them before year-end. Don't forget to consider donating appreciated stock that you have held for over one year. You will be able to write off the fair market value of the stock and you don't pay taxes on the appreciation.
 - Donate household items:** Stop by the Goodwill or Salvation Army and drop off any household items that are in good shape. Make sure to grab a tax receipt for your records.
 - Mortgage Interest:** Making your January 2012 mortgage payment before 12/31/2011 will allow you to deduct the interest in 2011 subject to limitations.
- **If you are not in alternative minimum tax consider:**
 - State and local income taxes:** Mail your 2011 fourth quarter state estimate before year end in order to claim the deduction on your 2011 return.
 - Real Estate Taxes:** Prepay the next installment of your real estate taxes by 12/31/2011 in order to accelerate the deduction into 2011.
- **Your investment portfolio may provide some tax savings opportunities.** If you have carryover capital losses or have incurred capital losses in 2011, consider selling those stocks which have appreciated and offsetting the gains with the losses. Individuals are entitled to deduct up to \$3,000 of capital losses each year. The remaining losses are carried forward indefinitely.
 - Don't forget about the 0% rate on long term capital gains and dividends. If you are in the 10% or 15% bracket, profits on sales of assets owned for over one year are tax-free until they push you in to the 25% bracket. Make sure you review your portfolio before year-end and assess your tax situation.

Newsletter Quote:

"Always Answer Letters From the Government"

Despite what some taxpayers hope for as they throw a notice from the taxing authorities into the trash, the IRS and FTB will never "forget" about you or the notice they sent you.

It is critical to your financial health that you respond to notices sent from the taxing authorities in a timely manner. Never ignore a notice.

Government agencies are hurting for money as they look for ways to cover their ballooning out of budget expenses. Be weary of notices received from the IRS and FTB and always allow a professional to respond on your behalf and review your particular situation. If you have received a notice from a taxing authority please call our office to ensure that you don't end up paying money to the government that you don't owe.

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Year-End Tax Planning Continued...

- **For 2011 you can gift up to \$13,000 per recipient, or \$26,000 if your spouse agrees to gift split, without paying any taxes on the gift.** Make sure that the check is deposited by the recipient by year-end or the IRS could recharacterize the gift as made in 2012. While no one pays gift tax on gifts made under the \$13,000 amount, no one gets a deduction for the gift either.
 - Gift property instead of cash? Think twice before gifting property which has declined in value. The loss is never deductible to the donee when he/she sells it. Instead, sell the asset and take the loss on your tax return and then gift the proceeds. If you are holding an asset that has appreciated in value or is expected to appreciate, consider gifting that asset now and thereby excluding any future appreciation from inclusion in your taxable estate.
- **Is college costing an arm and a leg?** Consider allowing the IRS to foot some of the bill through the educational credits discussed in the Tax Update section. Payments made before year-end for 2012 tuition and related educational expenses, will allow you to claim the credit in 2011 subject to phase-out limits.
- **Consider boosting your W-2 withholding on your last 2011 paycheck or IRA distribution** if you expect an underpayment penalty or suspect you haven't withheld enough throughout the year. As long as you pay in 90% of the current year's tax you are off the hook for any penalties.
- **Don't forget to take your required minimum distribution if you are 70 ½ or older.** Failure to timely withdraw your RMD will result in a hefty 50% tax on the amount that should have been withdrawn
 - Feeling charitable: If you don't need your RMD and don't want to be taxed on it, consider donating (up to \$100,000) the RMD to a qualified charitable organization. The donation must be made directly by the IRA trustee before year-end. The RMD income is not included in taxable income, but you do not get a charitable deduction for the donation. While the transfer exclusion expires after this year we expect Congress to extend this measure beyond 2011.
- **Getting some green for going green:** As we discussed in the Tax Update section, making energy efficient improvements to your principal residence (and/or second home) may qualify you for a tax credit. The most fruitful of the credits is the residential energy efficient property credit, which applies to the purchase and installation costs of large-ticket energy efficient property. The credit is equal to 30% of qualifying costs. Plan now for 2012 so that you can help the planet and your tax bill next year.
- **IRS code section 1202 allows for an exclusion from income for qualifying small business stock.** For stock purchases of small business stock made after September 27, 2010 and before January 1, 2012, the exclusion is 100%. Qualifying gain is also tax-free for alternative minimum tax purposes.
- **Consider purchasing business assets and placing them into service before year end.** Bonus depreciation will fall from 100% in 2011 to 50% in 2012. The section 179 depreciation limits are also set to decrease in 2012. Now is a great time to accelerate your business equipment and furniture purchases, but don't forget that the purchases must also be put into service before year-end to qualify for the bonus and section 179 depreciation.

A Note to Our Clients

Neal Reitz & Company...

- Has over 40 years of Tax and Accounting experience;
- Has 38 years of in depth interface with the Internal Revenue Service;
- Is a family owned business which has sustainable continuity for many years to come;
- Employs a full range of Tax and Accounting Experts with professional designations and licenses including: Certified Public Accountant (CPA), Enrolled Agent (EA), American Society of Appraisers- Business Valuation (ASA), Series 6 and 7 licenses, Certified Divorce Financial Analyst, Masters in Taxation, and Masters in Business Administration;
- Always has a Tax Expert available to answer your questions: we are far from a "one man firm";
- Offers newsletters and opinions to keep you up to date on financial and tax issues happening now.

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Watch Out, Increased IRS and FTB Compliance Penalties Are On The Way!

As a result of the political stigma attached to raising taxes, and with the 2012 Presidential Election ahead, a great amount of pressure is being placed on the IRS, Franchise Tax Board, and other taxing authorities to collect more in revenue through compliance and enforcement. The taxing authorities have found it more politically acceptable to increase assessed penalties and interest rather than increasing taxes.

The IRS has identified a revenue-generating opportunity in the area of 1099 reporting. The IRS has revamped the tax forms for individuals (including schedules C and E), corporations, and partnerships to include two "check boxes" which will require taxpayers to acknowledge, under the penalty of perjury, that they have filed, or will file, all required 1099 forms for their business. Non-compliance with 1099 Form filing requirements is a Pandora's Box of problems which will only catch up to taxpayers in one way or another as the government strengthens its enforcement efforts in this area.

A penalty of at least \$100 will now be assessed per form for: (1) the failure to file an information return on or before the required filing date, (2) the failure to include all of the required information on the 1099, and (3) the inclusion of incorrect information on the 1099. Remember that a penalty will apply to not only the act of failure to file form 1099-Misc with the IRS but also a separate penalty for failure to timely furnish the independent contractor with Form 1099-Misc. If your business engages independent contractors you must furnish a copy of Form 1099-Misc for non-employee compensation to them by January 31, 2012 and file the paper copy with the IRS by February 28, 2012.

If you would like our office to handle your 1099-Misc reporting and filing, please send to our office a list of your independent contractors including name, address, social security number, and 1099 dollar amount. The cost will range \$50-\$200 but the savings of avoiding penalties, interest, and a potential worker misclassification audit will be well worth it.

Medicare Surcharge

To help pay for the healthcare reform law, taxpayers will pay an additional 0.9% of Medicare Hospital Insurance on wages and self-employment income above certain threshold amounts beginning in 2013. Under current law, extended through 2012, employers and employees both pay 1.45% of wages as a Medicare Payroll tax (the self-employed pay the full 2.9%). Under the new law to take effect in 2013, employers will continue to pay 1.45% but the employee rate will increase from 1.45% to 2.35% on those wages and self-employment income exceeding \$250,000 for joint filers and \$200,000 for single and head of household filers. Example: A single filer with W-2 wages of \$230,000 will pay Medicare payroll tax of 1.45% on wages up to \$200,000 and Medicare payroll taxes of 2.35% on the remaining \$30,000.

In addition to the payroll tax increase, a Medicare surcharge will also be charged on the unearned income of the high earners. The surcharge of 3.8% is equal to the **lesser** of:

- Your net investment income from interest, dividends, annuities, royalties and rents, capital gains, and income from a business that is considered a passive activity or a business that trades financial instruments or commodities, or
- Your modified adjusted gross income which exceeds \$200,000 for single filers and \$250,000 for married filer

Therefore, you will only be subject to the 3.8% surcharge if your adjusted gross income exceeds the thresholds above. It is worth noting that certain forms of income will not be included in the calculation of investment income such as interest on tax-exempt bonds, veterans' benefits, excluded gain from the sale of a principal residence, and qualified retirement plan and IRA distributions.

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**Tax
Organizers**

We will be sending your 2011 tax year o r g a n i z e r electronically this year. Organizers will be emailed starting in January. If you do not receive your organizer, or you wish to change your appointment, please contact our office.

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Market Watch

It has been a frustrating year for the major stock indexes including S&P 500 Index currently red for the year and the Dow Jones industrial average ending up approximately only 5%. The Depressed housing markets and mounting government debt, both domestically and abroad, are laying the ground work for a stormy 2012 for investors. There is no reason not to be in cash currently and stay there until the markets largely deflate in the near future. Hold on for the ride as deflation and economic woes convene to create a dark year for the markets to come.

Neal's Nook: "Money talks, but gives no direction..."

Dear Clients,

Taxes are only a small part of your financial health. I believe that the general public focuses too heavily on the issue of taxes and throws the rest of their financial health to the wind. Focusing only on taxes leaves you vulnerable to potential "financial diseases" like ill-planned retirement, problematic estate decisions, and investing woes when no planning or thought has been put into these areas. People are so obsessed with saving taxes, because the benefit is immediate and seen in their pocketbooks, but the public needs to turn to more of a full view approach.

Contact us with all of your "financial problems" including, but certainly not limited to taxes.



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