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TAX YEAR 2012

Welcome to the new year and another tax filing. Hopefully, with a minimal effort on your part, we can get those returns accurately prepared and out of the way. Congress, the IRS, the state legislature, and the tax courts were all busy this year contributing to the tax laws including the following:

CHANGES FOR 2012

Congress made permanent the patch on the **alternate minimum tax (AMT)**. Without the patch the AMT would have applied to approximately an additional 30 million taxpayers in 2012.

For 2012 we are emphasizing the state of Arizona **Use Tax**. Arizona is upset that you are buying things over the internet without paying Arizona sales tax. To counter that problem, they imposed a Use Tax on any item you purchased and did not pay sales tax. That Use Tax is calculated on your Arizona income tax return and is based on the cost of the items purchased.

For 2012 for **business use of a vehicle** the mileage rate was 55.5 cents per mile and 23 cents per mile for medical mileage.

The maximum wage base for the **FICA portion of Social Security** was \$110,100 for 2012.

The **exemption for estate taxes** increased to \$5,000,000.

Employees had only 4.2% withheld from their paychecks for **social security taxes** instead of the normal 6.2%.

The **Arizona credit for private school scholarship organizations** increased to \$2,006 for a couple and \$1,003 for an individual and any donation made by April 15th will support the Arizona credit on your 2012 tax return.

A new form 8938 may need to be filed with the tax return if the aggregate value of all "specified **foreign financial assets**" exceed \$50,000 (single) or \$100,000 (married). Not reporting may subject one to very substantial penalties.

CHANGES FOR 2013

The **tax rate for high income households** (\$400,000 single, \$450,000 married) is going up to 39.6%. Also the itemized deductions and personal exemptions are phased out starting with incomes of \$250,000 for singles and \$300,000 for couples.

The **maximum capital gains rate** moves from 15% to 20% for high income households.

For 2013 for **business use of a vehicle** the mileage rate will be 56.5 cents per mile and for medical mileage the rate will be 23 cents per mile.

Individuals will pay an additional approx. 1% in **Medicare tax on earned income** (wages or self-employment income) in excess of \$200,000 (single) or \$250,000 (married).

In addition, **Medicare at a rate of 3.8%** will be imposed on the lesser of a taxpayers net investment income or the excess of total income over \$200,000 (single) or \$250,000 (married). Distributions from retirement accounts and municipal bond interest are not included in this new provision.

The **medical exclusion** of 7.5% increases to 10%. Senior citizens will get several year's delay in this change. Remember Arizona does not have any medical exclusion.

The exclusion for **cancellation of debt** on a primary residence was extended for one more year.

The maximum wage base for the **FICA portion of Social Security** is \$113,700 for 2013.

Social security earnings limit for early retirees (prior to age 66) increases in 2013 to \$15,120.

The **exemption for estate taxes** stays the same at \$5,000,000. However, the tax rate on estates larger than \$5,000,000 increases to 40%.

CHANGES FOR 2014

Individuals without health insurance coverage will be subject to a penalty of the greater of \$95 (increasing to \$695 in 2016) or 1% of their income (increasing to 2.5% in 2016)

Express Option - For Robert Rowland's clients Instead of scheduling a meeting with him, complete the tax organizer, attach the W-2's and other documents requested, include a list of questions you may have and mail, deliver, fax (520-319-0076) or email it all to Robert@RowlandTax.com. For this express option my total fee will be discounted by \$15. However, the essential requirement for this express option is your completion of the tax organizer. Also, the discounted price is not available after March 20th. For those of you who prefer meeting with Rob, we will continue to do so.

Quarterly Estimate Tax Payments The biggest post-filing issue the IRS has with my clients is properly accounting for quarterly estimated tax payments. Please review your quarterly estimated tax payment records carefully and verify those payments by seeing if they cleared on your bank statement.

Fees and Scope of Services. We will assist you in the preparation of the Federal and state individual income tax returns based on the information which you provide. We will charge a reasonable fee generally based on my current fee schedule for returns and schedules. Extraordinary work on a return or any schedule or additional advice will be charged at an hourly rate.

Fees and rates can change without notice. If you are unable to pay the fees in full when the return is completed, please make prior arrangements.

Retainer - Audit Representation Our fees (to Arizona residents only) will include a one time charge of 8% of the preparation fees as a nonrefundable retainer to cover Robert Rowland, CPA's representation in the audit, if any, of your 2012 individual income tax returns by the IRS or the state of Arizona. The retainer covers his services at no additional charge not only for the audit, but also, when reasonable, appeals within the IRS or the Arizona Department of Revenue and to the Federal or Arizona Tax Court. This retainer does not include the defense against any criminal investigation or prosecution.

Referrals As always we greatly appreciate any past or future referrals for accounting services and tax preparation.

Gift Tax Returns In addition to income taxes you may be liable to file a gift tax return and possibly pay gift taxes. A gift tax return generally needs to be filed if you made gifts of more than \$13,000 to any one individual during 2012 (\$14,000 in 2013). Please let me know if this is your situation.

Estate Tax Planning If the value of your assets (including life insurance) exceeds \$5,000,000 (exemption amount starting in 2013) then upon you or your spouse's death there is the possibility of an estate tax. The estate tax is a percentage (for 2013 up to 40%) of the fair market value of assets (and life insurance on your life) at the time of your death in excess of your debts and the exemption amount. There are several estate planning techniques legally available to reduce the possible estate tax such as lifetime gifts, charitable contributions, and trusts. Let me know if you want to explore estate tax planning.

Tax Records We are often asked how long does one need to save tax records. The IRS has up to 3 years to audit your return; the state of Arizona 4 years. If one under reports one's income by more than 25% the IRS audit period expands to 6 years. Also consider that for non-tax reasons the statute of limitations for litigation in which to be sued for a debt is up to 6 years. Therefore, we recommend that you keep supporting receipts and documents to your returns for at least 6 years. We also recommend that you keep copies of the tax returns indefinitely. However there are documents which need to be saved for more than six years. Keep the receipts which back up any items being depreciated on a return since those are still subject to audit. Also, keep all the receipts on the cost of stocks, bonds, real estate (including improvements), or any other investments which you still own.

Generally (as a backup to your records) we keep copies of your tax returns for six years. Keep in mind that we keep only limited copies of your W-2 forms, 1099 forms, or other supporting documents.

Preliminary Estimate For many of my clients we provide a preliminary estimate of their taxes at the time of our meeting. The completed returns can vary substantially from the preliminary estimate due to many factors including:

- a. **Use of estimates** on complex calculations such as the amount of taxable social security, Alternate Minimum Tax (AMT), phase out rules based on income, depreciation, and business vehicle expense calculations.
- b. **Additional information** provided after the preliminary estimate is made.
- c. **Calculation errors** that can occur when difficult computations are made rapidly and without the benefit of a double check.