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Sauppé Tax News

Brought to you by
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Special points of interest:

- Changes in Store
- W-2's in Detail
- Credit Card Payment
- Health Savings Accounts (HSA's)

INSIDE THIS ISSUE:

What Is In Store?

As of this printing, Congress still has not agreed upon the tax changes to be passed. The news is full of talk of the "fiscal cliff". In actuality, there are two aspects to consider regarding tax law changes. One set has to do with expired tax breaks that may or may not be reinstated for 2012. The other aspect-the one getting the most attention-is the potential new rates for 2013.

The expired tax breaks will directly impact your 2012 return, and if Congress does not act soon, there may be a filing delay as there was in 2011, when certain returns could not be filed until mid-February which delayed refunds.

The expired breaks include the Alternative Minimum Tax (AMT) patch, the deduction for state and local income taxes, the deduction for tuition and fees expenses, the deduction for teacher supplies, and the deduction for mortgage insurance premiums. If Congress does not pass a bill to extend these breaks beyond 12/31/11 (yes, they expired at the end of LAST year), no one will be able to take these deductions on their 2012 returns. This could result in higher income taxes if you were utilizing these breaks in the past.

The biggest issue is the AMT patch—without it, an estimated 27 million additional taxpayers will be affected by this tax in 2012. Briefly, the AMT is a second set of tax rules—every person must pay the larger of the regular tax or the AMT tax (see more detailed articles on the AMT in our last two annual newsletters). The problem with the AMT is the threshold amount which has NOT been tied to inflation. The threshold has been temporarily increased a number of times to equate what it would have been if it was tied to inflation. But because the fixes have been temporary, it reverts back to the old, non-indexed rate at the end of the time specified in the fix. For 2011, the threshold was "fixed" to $74,450 for a married couple filing jointly. However, because that fix expired 12/31/11, at present the AMT threshold for a married couple filing jointly is $45,000. You can see this is a major decrease, and could change your tax picture significantly.

The expired tax cuts (the second aspect of the fiscal cliff) are still in existence for 2012, but automatically end on 12/31/12 unless Congress acts. The Bush tax cut rates will be used to calculate your regular tax for 2012. But your first paycheck amount in January 2013 may very well decrease if the rates are allowed to expire. For example, for 2012, everyone has some of their tax calculated at a 10% rate. For 2013 and beyond, that rate will no longer be in existence. For 2012, the top four tax brackets are 25%, 28%, 33%, and 35%. For 2013, the top four rates will be 28%, 31%, 36%, and 39.6%. In 2012, the top capital dividend rate is 15% which is also the rate on qualified dividends. For 2013, the top capital dividend rate is 20% and dividends do not qualify for this rate. For 2012, the child tax credit is $1,000 per child. In 2013, the child tax credit will be $500 per child. If you have three children, your tax just increased by $1,500 because of that issue alone. In 2012, the social security tax rate imposed on the employee was 4.2%. In 2013, this rate will be 6.2%.

These are only some of the changes that will take place 1/1/13 because of the expiring Bush tax cuts.

Our office will continue to monitor all late-breaking tax news and how they will impact your taxes in 2012 and beyond. Watch our website at www.sauppetax.com for additional details.

Now Accepting Credit Cards

This year, our office has the ability to accept credit cards. We can accept Visa, Mastercard, American Express, or Discover. Of course, you can still pay by cash or check, but no matter what method you use, payment is due when returning your e-file authorization form.

Charity Begins at Home

We have all heard the expression, charity begins at home. Well, in the case of the paperwork you need to claim a charitable deduction, in many cases it does begin at home. If you do not have the proper documentation, you may not be able to claim your charitable donations.

For monetary donations under $250, your cancelled check or other receipt is sufficient documentation. For any one-time donations of $250 or more, your cancelled check will not satisfy the IRS. Before we can list these donations on your tax return, you must have a receipt from the charity acknowledging the donation. The IRS has taken the position (and won in court) that this receipt must have verbiage on it stating that "no goods or services were received". So if you write a big check to a charity during the year, be sure to review the charity's receipt to be sure the proper wording is available.

For all non-monetary donations (for example, clothing donated to Goodwill or Salvation Army) in addition to a receipt from the charity, you must have a detailed list of the items donated, and the value assigned to those items.
We CANNOT include a donation on your return without this documentation.

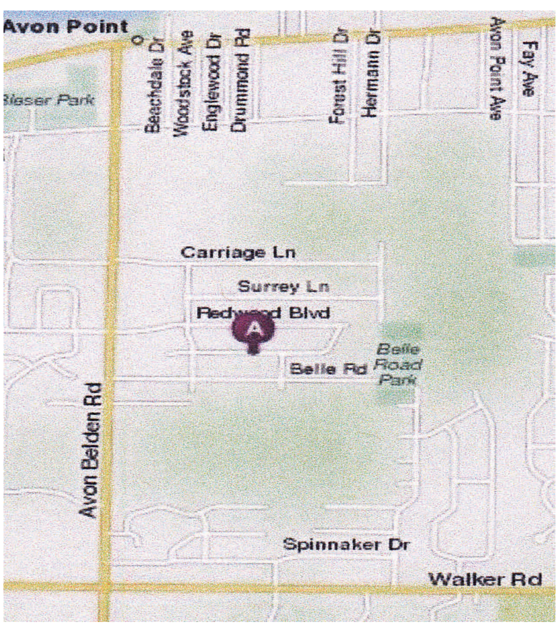
ENERGY CREDITS

Many of you have utilized the energy credit provisions in the last few years and have received energy credits because of this.

Please note that the Residential Energy Property Credits expired at the end of 2011 and it is highly unlikely that these credits will be reinstated. Some examples of the items that qualified here were new windows, insulation, energy efficient doors, and energy efficient HVAC systems.

In contrast, the Residential Energy Efficient Property Tax Credit is still in place until 2016. This credit applies to geo-thermal heat pumps, solar hot water heaters, and wind turbines.

If you believe you qualify for the second credit, please contact our office to discuss in detail.



DELIVERY METHODS

As in the past, there are three ways to provide us with your tax paperwork.

You may send your paperwork by US postal mail (or UPS, Fedex, etc.). We will review the paperwork, contact you with questions, and send the completed returns back to you.

You may drop off your paperwork with no appointment necessary in our locking drop box located by the front door. (See the picture below the map). You can access this box 24 hours a day, seven days a week, and we check the box every day. Again, we will contact you with questions, and send the completed return back to you.

You can schedule an appointment to review your taxes in person. Call our office at 440-933-3178 or e-mail us at admin@sauppetax.com to schedule your appointment. We have day or evening appointments available Monday through Saturday.

No matter what method you use, your completed questionnaire must be included.

You may also send your paperwork and set up a Skype chat if you have items you would like to discuss but do not have the ability meet at our office. Our Skype name is Sauppe.tax. You must set up a time for this chat by calling or e-mailing ahead of time for an appointment as we will not have Skype on all day.

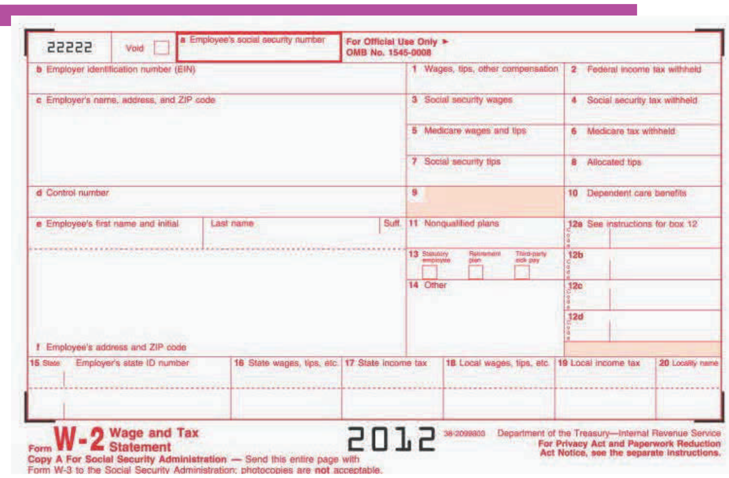
Driving directions—take either Belle Rd., Redwood (pedestrian crossing signs to mark this street), or Carriage Lane from Route 83 to Woodstock. Take Woodstock to Greenwood Dr. and turn east. The office is six houses down on the left hand side.

Understanding Your W-2

The form comes every year in January—the annual W-2. It is full of numbers but what does it all mean? There are many layouts possible for W-2's, but each employer must put certain information in the IRS identified box numbers. For example, your taxable wages for federal income tax purposes must go in Box 1 of the W-2. The federal tax withheld from your paycheck during the year must go in Box 2. Boxes 3 and 5 represent the wages subject to social security and Medicare tax, and boxes 4 and 6 are the corresponding taxes withheld. Sometimes boxes 1, 3, and 5 are the same and sometimes they are not. For example, if you contribute on a pre-tax basis to a 401k plan at work, this contribution is NOT subject to federal income tax in the current year. It won't be taxed until you withdraw the money from your 401k. But this contribution IS subject to social security and Medicare tax so Boxes 3 and 5 will be higher than Box 1.

If you want to know how much you contributed to your 401k during the year, the easiest way to do this is to look at the Box 12 amount that has a code of D. (If you contribute to a 403b plan, the code will be E, and if you contribute to a 457b plan the code will be G). This amount represents your total contribution for the year. You will also note that Box 13 should have the Retirement plan square marked off to indicate you are covered by a retirement plan at work. This may impact how much you can contribute to an IRA.

This year, employees who work for employers with 250 or more employees will see new information on their 2012 W-2. These employers are required to report the cost of your health insurance. This information will be reported in Box 12 with a code of DD. Please note that just because this amount is shown on the W-2 does NOT mean this benefit has become taxable to you.



Some other common codes found in Box 12 are Code C for the taxable benefit amount of group term life insurance, and Code W for the amount your employer contributed to your Health Savings Account. For more information on Health Savings Accounts, see page 5.

If you want to see the full list of codes for Box 12, you can find it by going to http://taxes.about.com/od/formw2/a/IRSFormW2_5.htm

Box 14 is another box you may want to pay attention to as this is where employers can report many different types of information including the amount you paid for union dues, your unreimbursed employee business expenses, and the after tax health insurance premiums you paid. However, your employer does not always list everything that may be helpful on your taxes in this box, and each employer can use a different explanation of what is represented, so it is important that you include your year-end pay stub along with your W-2 when submitting your tax paperwork.

Receiving an Inheritance

I am often asked if money someone receives as an inheritance is taxable. Unfortunately, the answer I always have to give is "it depends". The taxability hinges on what the item is.

Money that was simply sitting in the deceased's checking or savings account is probably going to come to you tax free.

Life insurance proceeds on the deceased will more than likely be tax free.

Money sitting in the deceased's IRA account or pension account with his employer, however, will come to you with tax strings attached. What those strings are and how you will be affected should be discussed with the executor of the estate. If you still have questions after talking to the executor, please feel free to contact our office.

In some instances, if it takes some time to close the estate, you may receive a K-1 showing income earned by the assets of the estate that will be or has been passed on to you. The items on the K-1 will need to be reported on your tax return so be sure to include this with your tax paperwork.

Earned Income Tax Credit

For those of you who have received the Earned Income Tax Credit in the past, you know this can be a beneficial tax credit. Unfortunately, thieves and scammers like this credit also. To ensure that only the individuals who are truly eligible for this credit claim it on their tax returns, the IRS is requiring all paid tax preparers to follow due diligence recordkeeping before claiming this credit on any client's return. Those who took the credit on the 2011 return were asked to provide documentation to allow us to meet this requirement. Some of the documentation can be used each year (such as copies of your social security cards) but other documentation must be requested every year. Therefore please review the documents found in your mailing and complete the EITC checklist if it is included. We cannot claim the EITC without this completed form in our possession.

Some of you may not have been eligible for the EITC last year, but a review of your 2012 paperwork may indicate you could be eligible on your 2012 return. If this is the case, we will send you an EITC checklist and a request for any other documentation needed to claim this credit for you.

Please understand that we are required to do this as a result of IRS regulations. Thank you for your understanding.

Enrolled Agents (EA's) and Registered Tax Return Preparers

You have probably heard a lot in the news lately about Registered Tax Return Preparers (RTRP's). This is a new classification the IRS established in 2010 to help regulate the tax preparation industry. Prior to this date, any person could say they knew how to prepare tax returns and did not need to prove their competency to any governing authority. This paved the way for many unscrupulous individuals to set up shop in a city for a year or two, collect their fees, and move on before the IRS began questioning the returns they prepared.

Of course, there have also been many highly qualified preparers in practice, though they still were not required to obtain a license or prove their competency. Starting in 2014, however, no one will be allowed to prepare an income tax return for a fee without being registered with the IRS as either an RTRP, an EA, a CPA, or a lawyer. Because of the new guidelines, unregistered tax preparers will be put out of business. If any of your friends or family members are dealing with their current tax preparer going out of business, please feel free to give them my name. I am always willing to talk to potential new clients.

As most of you know, I have been preparing taxes since 1981, and have been an enrolled agent since 2002. I therefore do not need to obtain the RTRP designation as I am already "registered" with the IRS and must follow regulations established for Enrolled Agents as set forth in Circular 230. Failure to follow these rules can lead to suspension of my EA status.

Below you will find a chart detailing some of the differences between an EA and an RTRP.

	Enrolled Agent	RTRP's
Established	1884	2010
Exam Requirement	2 day exam	2.5 hour exam
Annual Education Requirements	24 Hours CPE	15 Hours CPE
Representation Authority with the IRS	Unlimited	Limited

Checklist

Here is a recap of the items to include in your tax paperwork. This is NOT an all inclusive list, but simply a guideline to assist you in gathering your paperwork

- _____Completed questionnaire (front and back).
- _____All W-2's and 1099's including 1099INT, 1099DIV, 1099B, 1099MISC, and 1099R.
- _____Real estate tax bills paid in 2012 if not included in your monthly mortgage payment.
- _____All 1098's and K-1's received.
- _____Most recent statement or billing notice from your residence and work cities, if applicable (i.e. CCA or RITA).
- _____Recap of charitable donations segregated by monetary and non-monetary. Be sure to include all required written acknowledgements.
- _____Information on child care expenses paid.
- _____Any form 1098T's you received from colleges attended by you or your dependents along with the billing statements and details on any other education expenses incurred.
- _____Recap of medical bills (if you believe they may exceed 7.5% of your adjusted gross income).
- _____Recap of income and expenses (if self-employed or job expenses if an employee).
- _____Recap of rental income and expenses (if you own rental property). Please indicate number of days the home was rented, days used by you or a family member, and number of days empty.
- _____Settlement statements for any homes bought, sold, or refinanced during the year.
- _____Your 5498 statements (IRA valuation statements) if you have contributed to or made distributions from any retirement plan during the year as well as the year end statements for these accounts.
- _____Any other tax related paperwork you received or that you think may be relevant.
- _____Your CD-ROM previously provided to you by this office if you wish us to add this year's data to it.

Health Savings Accounts (HSA's)

With the cost of health insurance coverage increasing every year, more and more businesses are going with what is known as a High Deductible Health Plan (HDHP). These plans typically have a high deductible that the insured must cover before the insurance company starts picking up the tab. To truly be considered a high deductible health plan, the deductible amount in the plan must be a minimum of $1,200 and a maximum of $6,050 for single coverage, and a minimum of $2,400 and a maximum of $12,100 for family coverage (these are 2012 amounts and will increase slightly in 2013)

To assist their employees with these high deductibles, many companies are also establishing Health Savings Accounts that they either contribute to on behalf of the employee and/or let the employees contribute their own money to these plans. HSA's can only be established if the health plan is truly an HDHP as defined above. Any person or family that is covered under an HDHP can then establish an HSA account. The amount that can be contributed depends on the type of coverage (single or family) and the number of months in the year the covered person was under an HDHP for the year.

Let's give an example. Your employer has just informed you that your health insurance coverage will change effective 1/1 to a high deductible plan.

Your employer encourages you to establish an HSA but has indicated he will NOT be contributing to the plan. Your employer may allow you to contribute via a paycheck deduction or you may have to send your payment to the HSA plan sponsor directly. If your employer deducts the contribution on a pre-tax basis, your wages shown in Box 1 of your W-2 (see page 3 for detailed information on W-2 codes) will already be reduced by the amount of the contribution. You will not be able to deduct any additional amount on your tax return UNLESS you contribute more funds directly.

It is also possible that your employer will contribute some money for you to an HSA. The employer contribution will not be reflected in Box 1 because this is not money your employer is taking from your paycheck but represents additional, non-taxable compensation from your employer. This amount will be shown on your W-2 in Box 12 under Code W.

Keep in mind that there are limits to the amount of contributions that can be made each year. The total contributed by you pre-tax, by you after tax, and by your employer for your benefit cannot exceed the maximum amount allowed that year. For 2012, the maximum amounts are $3,100 for a single plan, $6,250 for a family plan, with a $1,000 additional contribution allowed if the insured is 55 or older.

Just like IRA's your HSA plan sponsor will send you a form at the end of the year showing how much was contributed during the year and the fair market value of the account at year end. This will be reported on Form 5498-SA.

Once you have contributed money to an HSA what happens next? This money can be used to pay medical bills for any person covered under the plan. So, if your child has to have his or her tonsils removed, and you have to pay some of the costs out of pocket, you can request reimbursement for these costs from the HSA sponsor. Each sponsor can have different instructions that must be followed to obtain these reimbursements. Some require you to pay the bill then fill out a form requesting reimbursement. Others give you a debit card that can only be used for verifiable medical expenses. And others could have a hybrid of these two methods.

Any year in which you have a distribution from your HSA, you will receive a form in January of the following year indicating the total amount withdrawn. This is form 1099-Sam and it MUST be included with your tax paperwork so that it can properly be reported on your tax return.

The IRS takes the position that all distributions from HSA's are taxable to you unless you "prove" otherwise. This proof is reported on Form 8889. In order for our office to complete this form properly, you will need to provide us with the total out of pocket medical expenses you had during the year. Your medical expenses can be more than, less than, or equal to the amount of the distribution shown on the HSA, but you must provide us with the total medical expense amount not the HSA distribution amount. This year, there is a question on the annual questionnaire and a spot for you to fill in the actual amount you paid for medical expenses during the year To arrive at this amount, you should look at all direct payments you made from your funds (checks written, credit card purchases, cash purchases with a receipt, or debit card transactions from your HSA plan sponsor. You must also keep all documentation to back up that amount in case of audit by the IRS.

Any item that qualifies as a medical expense deduction on your tax return is eligible for reimbursement from your HSA. Doctor visits, prescription drugs, eyeglasses, and hearing aids are just some examples. No over the counter medication (i.e. no prescription required to purchase it) can be included with the exception of insulin.

Your total medical expenses over and above your HSA distribution will be used to determine if you qualify to claim medical expenses on Schedule A. You only qualify if these expenses exceed 7.5% of your adjusted gross income (going to 10% of AGI in 2013 unless you are 65 or over).

Keep in mind that just because you contribute this year to an HSA, does not mean you must take all the funds back out in the same year. One big advantage to an HSA is that you can allow the funds to build in the account until you need them for some big medical expense in the future.

If you withdraw funds from an HSA for non-medical expenses, the withdrawal is subject to income tax and a 20% penalty.

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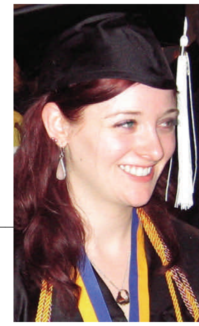
Specializing in personal and small business taxes

Changes to Education Credits



Changes are coming next year to Education Credits. The American Opportunity credit, which replaced the Hope credit, will no longer be available after 1/1/13 unless Congress acts to reinstate it. The Hope credit will come back into play if the American Opportunity Credit is not extended. For your 2012 returns, you can still utilize the American Opportunity Credit if you meet the requirements. This credit requires the student to be pursuing an undergraduate degree or other recognized education credential, meets the requirement of the college for at least a half time student for at least one academic period during the year, and must be in the first four years of postsecondary education (graduate studies do not qualify). The student must also have NO federal or state felony conviction for possessing or distributing a controlled substance as of the end of the tax year.

The Lifetime Learning credit, which allows a 20% credit on the cost of tuition and required enrollment fees only, will be available in 2012 and beyond. There is no requirement that the student be pursuing a degree or be enrolled on a half time basis or more. Even one course taken to acquire or improve job skills is eligible for this credit.

Another change effective 1/1/13 is the loss of the tuition and fees deduction for those who either did not qualify for either of the two credits above or perhaps maxed out with one student but had another student also attending college.

To claim either education credit or the tuition and fees deduction, you <u>must</u> file a joint return if you were considered married at the end of the year.

If funds are withdrawn from a 529 plan or an Education Savings Account (ESA), a review will need to be done to determine just how much of the payments made to the college during the year are eligible for the Education credits based on the total expenses for college versus the withdrawal from the 529 or ESA.

We want to be sure we take the maximum Education credit you are allowed. To do this, please provide us with detailed documentation regarding all expenses paid during 2012 for college expenses and any 1099-Q forms you receive (for distributions received).

Tax Tidbits

2012 Mileage Rate—The 2012 rate for deducting business miles is 55.5 cents per mile. If you accurately complete the mileage section of our annual questionnaire, we will compute this deduction for you. For 2013, the rate will be 56.5 cents per mile. The medical rate is 23 cents per mile and the charitable rate is 14 cents per mile for 2012.

Annual Gift Limit– the annual gift limit, which is $13,000 per person in 2012, is scheduled to increase to $14,000 starting 1/1/13. Any individual can give any other individual a gift of this amount or less in one calendar year without triggering the need to prepare a gift tax return.

IRA Limits - the amount you can contribute to an IRA (Roth or Traditional) is scheduled to increase in 2013. For 2012, you can contribute up to $5,000 ($6,000 if over 50). For 2013, you can contribute $5.500 ($6,500 if over 50). Whether any amounts contributed to a traditional IRA will be deductible on your tax return depends on whether you contribute to a retirement plan at work, and your income level.

Useful Web Sites— You may want to check out these websites:

lastpass.com — tired of all those passwords for multiple sites. Use this site to manage your passwords

tunein.com—the place to find streaming content from 50,000 sources in one place

arcade.atari.com—can't get enough of those old arcade games? Here is the place to go.

Coursera.com—take classes on line from hundreds of colleges and universities.

Nasa.gov—chock full of videos, text, and photos on decades' of missions as well as upcoming projects

Clipboard.com– a beefier version of Pinterest that lets you put chunks of web pages on your clipboard to save for future use.

NOTE—We cannot be held responsible for the accuracy or reliability of any information found on these websites.