

NEWSLETTER

Resolve to put your tax and financial house in order this year



The only way to achieve financial security is to monitor your tax and financial affairs throughout the year. And what better way to kick off the new year than to tidy up your financial and tax house. Here are some tips to get you started.

- * Take control of your credit cards. Over-reliance on credit cards hurts you in several ways. With interest rates typically in double digits, it's the most expensive way to borrow money. Think of those monthly interest payments as draining off dollars that you could be investing in a home or saving for your retirement. And too much debt can hurt your credit score and make other borrowing more difficult. It takes time and discipline to reduce credit card debt, but it's well worth the effort.
- * Rid yourself of "stuff" you don't use. Are you paying for a cell phone you rarely use? A magazine you never read? A mail-order video service you forgot about? An extra cable box for that basement TV you never watch? A membership to a gym you rarely attend? If so, now is the time to dump those wasted services and pocket the cash.
- * Build a cash reserve for emergencies. Your financial situation can quickly spin out of control if you can't come up with cash when you need it. If you lose your job, you might have to live on reduced income for several months. Or there could be unplanned medical bills, car repairs, or home repair costs. Even if you have insurance, reimbursements can take time and there are deductibles to meet. Work hard to put aside at least three months' living expenses. Invest it in a safe, liquid account, and resist the temptation to raid it for non-emergencies.

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Note these tax deadlines

February 15 –
Deadline for providing 2011 Forms 1099-B and 1099-S to recipients.

February 28 – Payers must file 2011 information returns (such as 1099s) with the IRS. (Electronic filers have until April 2 to file.)

February 29 – Employers must send 2011 W-2 copies to the Social Security Administration. (Electronic filers have until April 2 to file.)

March 1 – Farmers and fishermen who did not make 2011 estimated tax payments must file 2011 tax returns and pay taxes in full.

March 15 – 2011 calendar-year corporation income tax returns are due.

Your tax and financial house

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* Save regularly and save smartly. Develop the habit of saving something every month, no matter how small the amount. The earlier you start, the longer your savings will have to compound for retirement. Save as intelligently as possible. If you have a 401(k) plan that your employer matches, that's probably the best investment you'll find. Other tax-advantaged plans usually make sense, especially for younger investors. But developing a regular savings habit is the key.

* Diversify your investments. You'll reduce your risk by spreading investments among stocks, bonds, and real estate. Within each category, diversify among different industries and companies. The worst thing you can do is to have everything tied up in stock of the company you work for.

* Identify your tax opportunities for 2012. There are many credits and deductions available to you in such areas as retirement, education, home ownership, and child care. Identify those that will reduce your taxes, and make adjustments as needed to qualify for those tax breaks.

* Get that new filing system started now. Purge your old files. Destroy documents that you don't need. Create new files for your 2012 documents. Keep a tax and financial calendar that shows all deadlines for making payments and filing returns. And if you don't have a filing system, create one in order to organize and locate your tax and financial records.

* Educate yourself about financial matters. You don't have to get a degree in finance, but read financial articles on topics that concern your affairs. Consider taking a seminar in basic investing. Ask questions of your advisors. The more you know about finance, the more you can take control of your own financial health.

Use adjusted tax numbers for your 2012 tax 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 2012 tax planning.

* Standard mileage rate for business driving remains at 55.5¢ a mile. Rate for medical and moving mileage decreases to 23¢ a mile. Rate for charitable driving remains at 14¢ a mile.

* Section 179 maximum first-year expensing deduction decreases to \$139,000, with a phase-out threshold of \$560,000.

* Transportation fringe benefit limit decreases to \$125 for vehicle/transit passes and increases to \$240 for qualified parking.

* Social security taxable wage limit increases to \$110,100. Retirees under full retirement age can earn up to \$14,640 without losing benefits.

* Kiddie tax threshold remains at \$1,900 and applies up to age 19 (up to age 24 for full-time students).

* Nanny tax threshold increases to \$1,800.

* Health savings account (HSA) contribution limit increases to \$3,100 for individuals and to \$6,250 for families. An additional \$1,000 may be contributed by those 55 or older.

* 401(k) maximum salary deferral increases to \$17,000 (\$22,500 for 50 and older).

* SIMPLE maximum salary deferral remains at \$11,500 (\$14,000 for 50 and older).

* IRA contribution limit remains at \$5,000 (\$6,000 for 50 and older).

* Estate tax top rate remains at 35%, and the exemption amount increases to \$5,120,000.

* The annual gift tax exclusion remains at \$13,000.

* Adoption tax credit decreases to \$12,650 for adoption of an eligible child.

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